YRC WORLDWIDE INC
Form 10-K
February 29, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**
For the fiscal year ended December 31, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**
For the transition period from _________ to _________

Commission file number 0-12255

YRC WORLDWIDE INC.

(Exact name of registrant as specified in its charter)

Delaware	**48-0948788**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10990 Roe Avenue, Overland Park, Kansas	**66211**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (913) 696-6100

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $1 Par Value Per Share

(Title of class)

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x Nox

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant at June 30, 2007 was $2,111,572,850.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	Outstanding at January 31, 2008
Common Stock, $1 Par Value Per Share	56,798,398 shares

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the Form 10-K:

1) Proxy Statement related to the 2008 Annual Meeting of Stockholders - Part III

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YRC Worldwide Inc.

Form 10-K

Year Ended December 31, 2007

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This entire annual report, including (among other items) Item 7, Management s Discussion of Analysis of Financial Condition and Results of Operations and certain statements in the Notes to Consolidated Financial Statements contained in Item 8, Financial Statements and Supplementary Data , includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (each a forward-looking statement). Forward-looking statements include those preceded by, followed by or including the words should, could, may, expect, believe, estimate or similar expressions. Our actual results could differ materially from those projected by these forward-looking statements due to a number of factors, including (without limitation), inflation, inclement weather, price and availability of fuel, sudden changes in the cost of fuel or the index upon which the Company bases its fuel surcharge, competitor pricing activity, expense volatility, including (without limitation) expense volatility due to changes in rail service or pricing of rail service, ability to capture cost reductions, including (without limitation) those cost reduction opportunities arising from acquisitions, changes in equity and debt markets, a downturn in general or regional economic activity, effects of a terrorist attack, and labor relations, including (without limitation), the impact of work rules, work stoppages, strikes or other disruptions, any obligations to multi-employer health, welfare and pension plans, wage requirements and employee satisfaction, the risk factors included in Item 1A Risk Factors and the risk factors that are from time to time included in the Company s reports filed with the Securities and Exchange Commission (the SEC).

Other factors as well as more details regarding certain of these factors are provided in greater detail in Item 1A Risk Factors .

PART I

Item 1. Business
General Description of the Business

YRC Worldwide Inc. (also referred to as YRC Worldwide , the Company , we or our), one of the largest transportation service providers in the world, is a holding company that through wholly owned operating subsidiaries offers its customers a wide range of transportation services. These services include global, national and regional transportation as well as logistics. The YRC Worldwide portfolio of brands provides a comprehensive suite of services for the shipment of industrial, commercial and retail goods domestically and internationally. Our reportable segments, which are comprised of our various operating subsidaries, include the following:

In January 2007, we announced organizational changes that brought the management of Yellow Transportation and Roadway under one organization established as YRC National Transportation (National Transportation). Accordingly, beginning in 2007 we have combined these previously separate segments into one. National Transportation is a holding company for our transportation service providers focused on business opportunities in regional, national and international services. National Transportation is comprised of Yellow Transportation and Roadway. These companies each provide for the movement of industrial, commercial and retail goods, primarily through regionalized and centralized management and customer facing organizations. National Transportation also includes Reimer Express Lines, a Roadway subsidiary located in Canada that specializes in shipments into, across and out of Canada. Approximately 37% of National Transportation shipments are completed in two days or less. In addition to the United States (U.S.) and Canada, National Transportation also serves parts of Mexico, Puerto Rico and Guam.

YRC Regional Transportation (Regional Transportation) is a holding company for our transportation service providers focused on business opportunities in the regional and next-day delivery markets. Regional Transportation is comprised of New Penn Motor Express, USF Holland and USF Reddaway. These companies each provide regional, next-day ground services in their respective regions through a network of facilities located across the U.S.; Quebec, Canada; Mexico and Puerto Rico. USF Glen Moore, a provider of truckload services throughout the U.S., is also a subsidiary of Regional Transportation. Approximately 90% of Regional Transportation less-than-truckload (LTL) shipments are completed in two days or less. In 2006, Regional Transportation also included USF Bestway. In February 2007, the majority of USF Bestway s operations were consolidated into USF Reddaway.

YRC Logistics (formerly Meridian IQ) plans and coordinates the movement of goods worldwide to provide customers a single source for logistics management solutions. YRC Logistics delivers a wide range of global logistics management services, with the ability to provide customers improved return-on-investment results through flexible, fast and easy-to-implement logistics services and technology management solutions.

For revenue and other information regarding these segments, see the Business Segments note to our consolidated financial statements.

Incorporated in Delaware in 1983 and headquartered in Overland Park, Kansas, we employed approximately 63,000 people as of December 31, 2007. The mailing address of our headquarters is 10990 Roe Avenue, Overland Park, Kansas 66211, and our telephone number is (913) 696-6100. Our website is www.yrcw.com. Through the SEC Filings link on our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All of these filings may be viewed or printed from our website free of charge.

Narrative Description of the Business

Operating Units

YRC National Transportation

National Transportation is comprised of Yellow Transportation, Roadway and Reimer Express Lines. These companies offer a full range of services for the transportation of industrial, commercial, and retail goods in regional, national and international markets, primarily through the operation of owned or leased equipment in their respective North American surface distribution networks. Transportation services are provided for various categories of goods, which may include (among others) apparel, appliances, automotive parts, chemicals, food, furniture, glass, machinery, metal, metal products, non-bulk petroleum products, rubber, textiles, wood and other manufactured products or components. National Transportation provides both LTL services, which combines shipments from multiple customers on a single truck, and truckload services. Most deliveries are LTL shipments with truckload services offered to maximize equipment utilization and reduce empty miles (the distance empty or partially full trailers travel back to origin to balance the network). Each National Transportation company provides higher-margin specialized services, including guaranteed expedited services, time-specific deliveries, cross-border services, coast-to-coast air delivery, global transportation, product returns, temperature-sensitive shipment protection and government material shipments.

The National Transportation companies serve more than 600,000 manufacturing, wholesale, retail and government customers throughout North America. National Transportation s 42,000 employees are dedicated to operating its expansive network which support over 485,000 shipments in transit at any time. National Transportation shipments have an average shipment size of 1,200 pounds and travel an average distance of roughly 1,200 miles. Approximately 37% of shipments are delivered in two days or less. Operations research and engineering teams centrally coordinate the equipment, routing, sequencing and timing necessary to transport shipments more than 118 million miles per month. At December 31, 2007, National Transportation had 14,758 owned tractors, 2,379 leased tractors, 61,183 owned trailers and 3,579 leased trailers. The National Transportation network includes 586 strategically located facilities with 25,777 doors. National Transportation companies accounted for 69% of our total operating revenue in 2007, 69% of our total operating revenue in 2006, and 77% of our total operating revenue in 2005.

Yellow Transportation

Founded in 1924, Yellow Transportation provides service throughout North America, including within Puerto Rico, Guam and Hawaii. The Yellow Transportation affiliates, YRC Services, S. de R.L. de C.V. and Yellow Transportation of Ontario, Inc. and Yellow Transportation of British Columbia, Inc., provide services in Mexico and Canada, respectively. Yellow Transportation is headquartered in Overland Park, Kansas.

Yellow Transportation helps customers turn transportation into a competitive advantage through such innovative services as:

Exact Express® and Expedited Direct seamless air and ground delivery for expedited shipments through North America, featuring flexible pickup and delivery times and an industry-leading 100% satisfaction guarantee.

Definite Delivery® a guaranteed on-time service with constant shipment monitoring and proactive notification and more direct points than any other guaranteed standard delivery service.

Standard Ground a ground service with expansive coverage throughout the U.S., Canada, Mexico, Puerto Rico and Guam.

MyYellow®.com a leading edge e-commerce web site offering online transportation management tools for everything from obtaining rate quotes to scheduling pickups, generating bills of lading, tracking shipments and resolving questions.

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Roadway

Founded in 1930, Roadway provides seamless service throughout Canada, Mexico and the U.S., including Alaska, Hawaii and Puerto Rico. Two-day, three-day and coast-to-coast service connect key markets throughout North America. Reimer Express Lines, a subsidiary of Roadway, provides service in Canada, and the Roadway affiliate, YRC Services, S. de R.L. de C.V, provides services in Mexico. Roadway is headquartered in Akron, Ohio.

Roadway adds value to global supply chains through service offerings such as:

- *Roadway Time-Critical Service* Expedited, emergency and window deliveries via ground or air anywhere in North America with shipment arrival timed to the hour, day, or span of days and a 100% on-time guarantee. Guaranteed multiple-day window deliveries meet a retail industry need to reduce chargeback fees.

- *Roadway Time-Advantage Service* Cost-effective blend of ground and air transportation to provide highly reliable deliveries at any speed throughout North America, with both expedited and deferred air capabilities.

- *Roadway Custom Solutions* Innovative combinations of network resources, capabilities, technologies and flexibility to customize services for unique distributions, new store openings, product returns, and other special projects.

- *Roadway Sealed Divider Service* Patented shipment protection unique to the marketplace and designed for products that are difficult or expensive to package for shipping, are of high value, or need verifiable security throughout transit.

- *Roadway Global Services* Global offerings expanded in cooperation with YRC Logistics in 2007 to provide air, ocean and ground transportation and logistics services at any point in the supply chain; an expedited ocean service from China to U.S. with guaranteed delivery to final destination; and the only standard service delivery guarantee in the marketplace for U.S./Canada cross-border shipping.

- *my.roadway.com* A secure e-commerce website offering online resources for supply chain visibility and shipment management in real time.

Reimer Express Lines

Founded in 1952, Reimer Express Lines, a wholly owned subsidiary of Roadway, offers Canadian shippers a selection of direct connections within Canada, throughout North America and around the world. Its network and information systems are completely integrated with those of Roadway enabling Reimer Express Lines to provide seamless cross-border services between Canada, Mexico and the U.S. and markets overseas.

YRC Regional Transportation

Regional Transportation is comprised of New Penn, USF Holland, USF Reddaway and USF Glen Moore. In 2006, Regional Transportation also included USF Bestway. In February 2007, we consolidated the majority of USF Bestway s operations into USF Reddaway. Together, the Regional Transportation companies deliver services in the next-day, second-day and time-sensitive markets nationwide, which are among the fastest-growing transportation segments. The Regional Transportation service portfolio includes:

- *Regional delivery* including next-day local area delivery and second-day services; consolidation/distribution services; protect-from-freezing and hazardous materials handling; and a variety of other specialized offerings.

Expedited delivery including day-definite, hour-definite and time definite capabilities.

Truckload delivery including regional, national, dedicated and team-based services.

Inter-regional delivery combining our best-in-class regional networks with reliable sleeper teams, Regional Transportation provides reliable, high-value services between our regional operations.

Cross-border delivery through strategic partnerships, the Regional Transportation companies provide full-service capabilities between the U.S. and Canada, Mexico and Puerto Rico.

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USFNet.com and NewPenn.com are both leading edge e-commerce web sites offering secure and customized online resources to manage transportation activity.

The Regional Transportation companies are described as follows:

New Penn Motor Express, headquartered in Lebanon, Pennsylvania, provides local next-day, day-definite, and time-definite services through a network located in the Northeastern United States; Quebec, Canada; and Puerto Rico.

USF Holland, headquartered in Holland, Michigan, provides local next-day, regional and expedited services through a network located in the Midwestern, Southeastern and portions of the Northeast United States. USF Holland also provides service to the provinces of Ontario and Quebec, Canada.

USF Reddaway, headquartered in Clackamas, Oregon, provides local next-day, regional and expedited services through a network located in California, the Pacific Northwest, the Rocky Mountain States and the Southwest. Additionally USF Reddaway provides services to Alaska and to the provinces of Alberta and British Columbia, Canada. In February 2007, we consolidated the majority of USF Bestway s operations into USF Reddaway.

USF Glen Moore, headquartered in Carlisle, Pennsylvania, provides spot, dedicated and single-source customized truckload services through the use of company and team-based drivers. USF Glen Moore has two primary domiciles located in Carlisle, Pennsylvania, and Knoxville, Tennessee.

The Regional Transportation companies serve more than 200,000 manufacturing, wholesale, retail and government customers throughout North America. At December 31, 2007, the Regional Transportation network included 193 service centers with 8,396 doors and the fleet included 9,000 tractors and 21,700 trailers. In February 2008, Regional Transportation closed 27 service centers primarily those in the former USF Bestway footprint. Regional Transportation s 16,000 employees are dedicated to supporting the delivery of over 14.7 million shipments annually. In addition to over 347 local, company-based sales executives, Regional Transportation has 19 corporate account managers who provide corporate sales services to the entire group of companies. In 2007, each of our four companies was recognized with the prestigious *Quest for Quality* award by the readers of Logistics Management magazine.

Headquartered in Overland Park, Kansas, the Regional Transportation companies accounted for 25% of our total operating revenue in 2007, 25% of the total operating revenue in 2006 and 18% of the total operating revenue in 2005.

YRC Logistics

In June 2007, Meridian IQ changed its name to YRC Logistics. This name change better reflects the company s expertise in logistics and its heritage as the logistics arm of YRC Worldwide. YRC Logistics is a global logistics services provider that plans and coordinates the movement of goods worldwide to provide customers a single source for logistics management solutions.

YRC Logistics delivers a wide range of global logistics services, with the ability to provide clients services through the design, implementation and execution of innovative logistics solutions. Our broad portfolio of services makes it possible to offer end-to-end supply chain solutions supported by the visibility of Web-native technology. YRC Logistics service portfolio includes the following services:

Distribution Services that include:

Flow Through & Pool Distribution

Dedicated Warehousing

- Value Added Services

Global Services that include:

- International Freight Forwarding
- Customs Brokerage
- Value Added Services

Transportation Services that include:

- Truckload Brokerage
- Dedicated Contract Carriage
- Domestic Freight Forwarding
- Transportation Management

YRC Logistics has continued its strategic focus on growing the global logistics offering in China. In December 2007, YRC Logistics entered into a definitive agreement to acquire Shanghai Jiayu Logistics Co., Ltd., one of the largest providers of less-than-truckload ground transportation services in China, with over 30,000 customers, 1,800 employees and a network of over 3,000 vehicles.

At December 31, 2007, YRC Logistics had more than 2,700 employees in North America, Asia, Latin America, and Europe (predominately in the United Kingdom). Based in Overland Park, Kansas, YRC Logistics accounted for 6% of our total operating revenue in 2007, 6% of our total operating revenue in 2006, and 5% of our total operating revenue in 2005.

Shared Services

We have four wholly owned subsidiaries that provide shared support services across the YRC Worldwide enterprise. These are YRC Worldwide Technologies, YRC North American Transportation, YRC Enterprise Solutions Group and YRC Assurance Co. Ltd (YRC Assurance).

YRC Worldwide Technologies is headquartered in Overland Park, Kansas and has approximately 600 employees. YRC Worldwide Technologies and YRC Logistics together provide hosting, infrastructure services and managed transportation business systems development.

YRC North American Transportation, formerly YRC Worldwide Enterprise Services, headquartered in Overland Park, Kansas, provides a wide variety of centrally managed support services to our operating companies. These services span nearly all functions including components of finance, operations support, sales and marketing and security. This entity employs approximately 1,500 people.

In January 2007, we announced the formation of YRC Enterprise Solutions Group. YRC Enterprise Solutions Group, headquartered in Overland Park, Kansas, provides sales and marketing services to our operating subsidiaries for an identified group of large accounts who desire to buy services from more than one of these operating subsidiaries in a coordinated manner.

YRC Assurance Co. Ltd., is a captive insurance company domiciled in Bermuda and a wholly owned and consolidated subsidiary of YRC Worldwide Inc. YRC Assurance provides insurance services to certain wholly owned subsidiaries of YRC Worldwide.

In addition, YRC Worldwide provides certain services to its subsidiaries such as legal, risk management, finance and coordination services. Each of our shared services organizations charges the operating companies for their services, either based upon usage or on an overhead allocation basis.

Competition

Customers have a wide range of choices. The companies of YRC Worldwide believe that overall brand strategy, service quality, technology, a broad service portfolio, responsiveness and flexibility are important competitive differentiators.

Few U.S.-based transportation companies offer comparable transportation and logistics capabilities. By integrating traditional ground, expedited, air, ocean and managed transportation capabilities, we provide business organizations with a single-source answer to shipping challenges globally. Our market studies show a continued preference among customers for transportation and logistics providers based on service value, which is the relationship between overall quality and price. We believe that we can compete against any transportation and logistics competitor from a value perspective.

The companies of YRC Worldwide Yellow Transportation, Roadway, Reimer, YRC Logistics, New Penn, USF Holland, USF Reddaway and USF Glen Moore operate in a highly competitive environment. Their competitors include global, integrated transportation services providers; global forwarders; national transportation services providers; regional or interregional providers; and small, intraregional transportation companies. The companies of YRC Worldwide also compete against providers within several modes of transportation including: LTL, truckload, air and ocean cargo, rail, transportation consolidators and privately owned fleets.

Ground-based transportation includes private fleets and two for-hire provider groups. The private provider segment consists of fleets that companies who move their own goods own and operate. The two for-hire groups are based on typical shipment sizes that transportation service companies handle. Truckload refers to providers transporting shipments that generally fill an entire 48- or 53-foot trailer and LTL or shared load refers to providers transporting goods from multiple shippers in a single load that would not fill a full-sized trailer on their own.

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Shared load or LTL transportation providers consolidate numerous orders generally ranging from 100 to 10,000 pounds from varying businesses at individual service centers in close proximity to where those shipments originated. Utilizing expansive networks of pickup and delivery operations around these local service centers, shipments are moved between origin and destination utilizing distribution centers when necessary, where consolidation and deconsolidation of loads occurs. Depending on the distance shipped, shared load providers (asset and non-asset based) are often classified into one of four sub-groups:

- Regional - Average distance is typically less than 500 miles with a focus on one- and two-day delivery times. Regional transportation companies can move shipments directly to their respective destination centers, which increases service reliability and avoids costs associated with intermediate handling.

- Interregional - Average distance is usually between 500 and 1,000 miles with a focus on two- and three-day delivery times. There is a competitive overlap between regional and national providers in this category as each group sees the interregional segment as a growth opportunity, and there are no providers focusing exclusively on this sector.

- National - Average distance is typically in excess of 1,000 miles with focus on two- to five-day delivery times. National providers rely on interim shipment handling through a network of terminals, which require numerous satellite service centers, multiple distribution centers, and a relay network. To gain service and cost advantages, they often ship directly between service centers, minimizing intermediate handling.

- Global - providing freight forwarding and final-mile delivery services to companies shipping to and from multiple regions around the world. This service can be offered through a combination of owned assets or through a purchased transportation or third-party logistics model.

Competitive cost of entry into the asset-based LTL sector on a small scale, within a limited service area, is relatively small (although more than in other sectors of the transportation industry). The larger the service area, the greater the barriers to entry, due primarily to the need for additional equipment and facilities associated with broader geographic service coverage. Broader market coverage in the competitive transportation landscape also requires increased technology investment and the ability to capture cost efficiencies from shipment density (scale), making entry on a national basis more difficult.

Yellow Transportation, Roadway, and YRC Logistics (through transportation management services) provide service in all four sub-groups. New Penn and the USF companies compete in the regional, interregional and national transportation marketplace. Each brand competes against a number of providers in these markets from small firms with one or two vehicles, to global competitors with thousands of physical assets.

The competition specifically for YRC Logistics includes all of the same types of providers mentioned previously in addition to transportation management systems providers, domestic and international freight forwarders, freight brokers, warehouse management providers, and third party logistics companies.

Regulation

National Transportation, Regional Transportation and other interstate carriers were substantially deregulated following the enactment of the Motor Carrier Act of 1980, the Trucking Industry Regulatory Reform Act of 1994, the Federal Aviation Administration Authorization of 1994 and the ICC Termination Act of 1995. Prices and services are now largely free of regulatory controls, although the states retained the right to require compliance with safety and insurance requirements, and interstate motor carriers remain subject to regulatory controls that agencies within the U.S. Department of Transportation impose.

Our operating companies are subject to regulatory and legislative changes, which can affect our economics and those of our competitors. Various state agencies regulate us, and our operations are also subject to various federal, foreign, state, provincial and local environmental laws and regulations dealing with transportation, storage, presence, use, disposal and handling of hazardous materials, discharge of storm-water and underground fuel storage tanks.

We are also subject to regulations to combat terrorism that the Department of Homeland Security and other agencies impose.

We believe that our operations are in substantial compliance with current laws and regulations.

We further describe our operations in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , of this report.

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Environmental Matters

Our operations are subject to U.S. federal, foreign, state, provincial and local regulations with regard to air and water quality and other environmental matters. We believe that we are in substantial compliance with these regulations. Regulation in this area continues to evolve and changes in standards of enforcement of existing regulations, as well as the enactment and enforcement of new legislation may require us and our customers to modify, supplement or replace equipment or facilities or to change or discontinue present methods of operation.

During 2007, we spent approximately $6.5 million to comply with U.S. federal, state and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment (collectively, Environmental Regulations). In 2008, we expect to spend approximately $6.8 million to comply with the Environmental Regulations. Based upon current information, we believe that our compliance with Environmental Regulations will not have a material adverse effect upon our capital expenditures, results of operation and competitive position because we have either made adequate reserves for such compliance expenditures or the cost for such compliance is expected to be small in comparison with our overall net worth.

We estimate that we will incur approximately $0.5 million in capital expenditures for environmental control equipment during 2008. We believe that capital expenditures for environmental control equipment for 2008 will not have a material adverse effect upon our financial condition because the aggregate amount of these expenditures is expected to be immaterial.

The Comprehensive Environmental Response, Compensation and Liability Act (known as the Superfund Act) imposes liability for the release of a hazardous substance into the environment. Superfund liability is imposed without regard to fault and even if the waste disposal was in compliance with the then current laws and regulations. With the joint and several liability imposed under the Superfund Act, a potentially responsible party (PRP) may be required to pay more than its proportional share of such environmental remediation. Several of our subsidiaries have been identified as PRPs at various sites discussed below. The U.S. Environmental Protection Agency (the EPA) and appropriate state agencies are supervising investigative and cleanup activities at these sites. The EPA has identified Yellow Transportation as a PRP for five locations: Angeles Chemical Co., Santa Fe Springs, CA; Ilada Waste Co., a site at Dupo, IL; Alburn Incinerator, Inc., Chicago, IL; Mercury Refinery, Albany, NY and IWI, Inc., Summit, IL. We estimate that the combined potential costs at these sites will not exceed $0.2 million. With respect to these sites, it appears that Yellow Transportation delivered minimal amounts of waste to these sites, which is *de minimis* in relation to other respondents. The EPA has identified Roadway Express as a PRP for five locations: Operating Industries Site, Monterey Park, CA; BEMS Landfill, Mt. Holly, NJ; Double Eagle Site, Oklahoma City, OK; Jones Industrial, South Brunswick, NJ and Berry s Creek, Carlstadt, NJ. We estimate that combined potential costs at the first four sites will not exceed $0.6 million. The EPA has notified Roadway and 140 other potential parties of their potential responsibility status at the Berry s Creek site where Roadway owns and operates a service center in the watershed area that discharges into Berry s Creek. We estimate the Berry s Creek potential cost to be $0.6 million. The EPA has identified USF Red Star, a non-operating subsidiary, as a PRP at six locations: Champion Chemical, Marlboro, NJ; Booth Oil, N. Tonawanda, NJ; Quanta Resources, Syracuse, NY and three separate landfills in Byron, NJ, Moira, NY and Palmer, MA. We believe the potential combined costs at these sites to be $0.4 million. The EPA has identified New Penn as a PRP for one location, Pennsauken Landfill, Pennsauken, NJ. We believe the potential cost at this site to be immaterial. The EPA has identified USF Holland as a PRP for one location, Horton Sales Piedmont Site, Greenville County, SC. We believe the potential cost at this site to be immaterial.

While PRPs in Superfund actions have joint and several liabilities for all costs of remediation, it is not possible at this time to quantify our ultimate exposure because the projects are either in the investigative or early remediation stage. Based upon current information, we do not believe that probable or reasonably possible expenditures in connection with the sites described above are likely to have a material adverse effect on our financial condition or results of operations because:

- To the extent necessary, we have established adequate reserves to cover the estimate we presently believe will be our liability with respect to the matter;

- We and our subsidiaries have only limited or *de minimis* involvement in the sites based upon a volumetric calculation;

- Other PRPs involved in the sites have substantial assets and may reasonably be expected to pay their share of the cost of remediation;

We have adequate resources to cover the ultimate liability; and

We believe that our ultimate liability is relatively small compared with our overall net worth.

We are subject to various other governmental proceedings and regulations, including foreign regulations, relating to environmental matters, but we do not believe that any of these matters are likely to have a material adverse effect on our financial condition or results of operation.

This section, Environmental Matters, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words believe , expect , will , estimate , may and similar expressions are intended to identify forward-looking statements. Our expectations regarding our compliance with Environmental Regulations and our expenditures to comply with Environmental Regulations, including (without limitation) our capital expenditures on environmental control equipment, and the effect that liability from Environmental Regulation or Superfund sites may have on our financial condition or results of operations, are only our forecasts regarding these matters. These forecasts may be substantially different from actual results, which may be affected by the following factors: changes in Environmental Regulations; unexpected, adverse outcomes with respect to sites where we have been named as a PRP, including (without limitation) the sites described above; the discovery of new sites of which we are not aware and where additional expenditures may be required to comply with Environmental Regulations; an unexpected discharge of hazardous materials in the course of our business or operations; an acquisition of one or more new businesses; a catastrophic event causing discharges into the environment of hydrocarbons; the inability of other PRPs to pay their share of liability for a Superfund site; and a material change in the allocation to us of the volume of discharge and a resulting change in our liability as a PRP with respect to a site.

Economic Factors and Seasonality

Our business is subject to a number of general economic factors that may have a materially adverse effect on the results of our operations, many of which are largely out of our control. These include recessionary economic cycles and downturns in customers business cycles, particularly in market segments and industries, such as retail and manufacturing, where we have a significant concentration of customers. Economic conditions may adversely affect our customers business levels, the amount of transportation services they need and their ability to pay for our services. We operate in a highly price-sensitive and competitive industry, making pricing, customer service, effective asset utilization and cost control major competitive factors. National Transportation, Regional Transportation and YRC Logistics revenues are subject to seasonal variations. Customers tend to reduce shipments after the winter holiday season, and operating expenses as a percent of revenue tend to be higher in the winter months primarily due to colder weather. Generally, the first quarter is the weakest while the third quarter is the strongest. The availability and cost of labor can significantly impact our cost structure and earnings.

Financial Information About Geographic Areas

Our revenue from foreign sources is largely derived from Canada, the United Kingdom, Asia and Mexico. We have certain long-lived assets located in these countries as well. We discuss this information in the Business Segments note to our consolidated financial statements.

Item 1A. Risk Factors

In addition to the risks and uncertainties contained elsewhere in this report or in our other SEC filings, the following risk factors should be considered carefully in evaluating us. These risks could have a material adverse effect on our business, financial condition and results of operations.

We are subject to general economic factors that are largely out of our control, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to a number of general economic factors that may adversely affect our business, financial condition and results of operations, many of which are largely out of our control. These factors include recessionary economic cycles and downturns in customers business cycles and changes in their business practices, particularly in market segments and industries, such as retail and manufacturing, where we have a significant concentration of customers. Economic conditions may adversely affect our customers business levels, the amount of transportation services they need and their ability to pay for our services. Due to our high fixed-cost structure, in the short-term it is difficult for us to adjust expenses proportionally with fluctuations in volume levels. Customers encountering adverse economic conditions represent a greater potential for loss, and we may be required to increase our reserve for bad-debt losses.

We are subject to business risks and increasing costs associated with the transportation industry that are largely out of our control, any of which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to business risks and increasing costs associated with the transportation industry that are largely out of our control, any of which could adversely affect our business, financial condition and results of operations. The factors contributing to these

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risks and costs include weather, excess capacity in the transportation industry, interest rates, fuel prices and taxes, fuel surcharge collection, terrorist attacks, license and registration fees, insurance premiums and self-insurance levels, difficulty in recruiting and retaining qualified drivers, the risk of outbreak of epidemical illnesses, the risk of widespread disruption of our technology systems, and increasing equipment and operational costs. Our results of operations may also be affected by seasonal factors.

We operate in a highly competitive industry, and our business will suffer if we are unable to adequately address potential downward pricing pressures and other factors that could have a material adverse effect on our business, financial condition and results of operations.

Numerous competitive factors could adversely affect our business, financial condition and results of operations. These factors include the following:

- We compete with many other transportation service providers of varying sizes, some of which have a lower cost structure, more equipment and greater capital resources than we do or have other competitive advantages.

- Some of our competitors periodically reduce their prices to gain business, especially during times of reduced growth rates in the economy, which limits our ability to maintain or increase prices or maintain or grow our business.

- Our customers may negotiate rates or contracts that minimize or eliminate our ability to offset fuel price increases through a fuel surcharge on our customers.

- Many customers reduce the number of carriers they use by selecting so-called core carriers as approved transportation service providers, and in some instances, we may not be selected.

- Many customers periodically accept bids from multiple carriers for their shipping needs, and this process may depress prices or result in the loss of some business to competitors.

- The trend towards consolidation in the ground transportation industry may create other large carriers with greater financial resources and other competitive advantages relating to their size.

- Advances in technology require increased investments to remain competitive, and our customers may not be willing to accept higher prices to cover the cost of these investments.

- Competition from non-asset-based logistics and freight brokerage companies may adversely affect our customer relationships and prices.

If our relationship with our employees were to deteriorate, we may be faced with labor disruptions or stoppages, which could have a material adverse effect on our business, financial condition and results of operations and place us at a disadvantage relative to non-union competitors.

Virtually all of our operating subsidiaries have employees who are represented by the International Brotherhood of Teamsters (the IBT). These employees represent approximately 70% of our workforce.

Each of Yellow Transportation, Roadway, New Penn and USF Holland employ most of their unionized employees under the terms of a common national master freight agreement with the IBT, as supplemented by additional regional supplements and local agreements. The IBT members have ratified a new five-year agreement that will take effect on April 1, 2008 and will expire on March 31, 2013. The IBT also represents a number of employees at USF Reddaway under more localized agreements, which have wages, benefit contributions and other terms and conditions that better fit the cost structure and operating models of these business units.

Certain of our subsidiaries are regularly subject to grievances, arbitration proceedings and other claims concerning alleged past and current non-compliance with applicable labor law and collective bargaining agreements.

Neither we nor any of our subsidiaries can predict the outcome of any of the matters discussed above. These matters, if resolved in a manner unfavorable to us, could have a material adverse effect on our business, financial condition and results of operations.

Ongoing self-insurance and claims expenses could have a material adverse effect on our business, financial condition and results of operations.

Our future insurance and claims expenses might exceed historical levels. We currently self-insure for a majority of our claims exposure resulting from cargo loss, personal injury, property damage and workers compensation. If the number or severity of claims for which we are self-insured increases, our business, financial condition and results of operations could be adversely affected and we may have to post additional letters of credit to support our insurance policies. If we lose our ability to self insure, our insurance costs could materially increase and we may find it difficult to obtain adequate levels of insurance coverage.

We have significant ongoing capital requirements that could reduce our income if we are unable to generate sufficient cash from operations.

Our business is capital intensive. If we are unable to generate sufficient cash from operations to fund our capital requirements, we may have to limit our growth, utilize our existing, or enter into additional, financing arrangements, including leasing arrangements, or operate our revenue equipment (including tractors and trailers) for longer periods resulting in increased maintenance costs, any of which could reduce our income. If our cash from operations and existing financing arrangements are not sufficient to fund our capital requirements, we may not be able to obtain additional financing at all or on terms acceptable to us.

We operate in an industry subject to extensive government regulations, and costs of compliance with, or liability for violation of, existing or future regulations could significantly increase our costs of doing business.

The U.S. Departments of Transportation and Homeland Security and various federal, state, local and foreign agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety and permits to conduct transportation business. We may also become subject to new or more restrictive regulations that the Departments of Transportation and Homeland Security, the Occupational Safety and Health Administration, the Environmental Protection Agency or other authorities impose, including regulations relating to engine exhaust emissions, the hours of service that our drivers may provide in any one time period, security and other matters. Compliance with these regulations could substantially impair equipment productivity and increase our costs.

We are subject to various environmental laws and regulations, and costs of compliance with, or liabilities for violations of, existing or future laws and regulations could significantly increase our costs of doing business.

Our operations are subject to environmental laws and regulations dealing with, among other things, the handling of hazardous materials, underground fuel storage tanks and discharge and retention of stormwater. We operate in industrial areas, where truck terminals and other industrial activities are located, and where groundwater or other forms of environmental contamination may have occurred. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. If we are involved in a spill or other accident involving hazardous substances, or if we are found to be in violation of applicable environmental laws or regulations, it could significantly increase our cost of doing business. Under specific environmental laws and regulations, we could be held responsible for all of the costs relating to any contamination at our past or present terminals and at third party waste disposal sites. If we fail to comply with applicable environmental laws and regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

In addition, as global warming issues become more prevalent, federal and local governments and our customers are beginning to respond to these issues. This increased focus on sustainability may result in new regulations and customer requirements that could negatively affect us. This could cause us to incur additional direct costs or to make changes to our operations in order to comply with any new regulations and customer requirements, as well as increased indirect costs or loss of revenue resulting from, among other things, our customers incurring additional compliance costs that affect our costs and revenues. We could also lose revenue if our customers divert business from us because we haven t complied with their sustainability requirements. These costs, changes and loss of revenue could have a material adverse affect on our business, financial condition and results of operations.

We may be obligated to make additional contributions to multi-employer pension plans.

If a surcharge is assessed on any of the multi-employer pension plans to which our operating subsidiaries contribute and the funds available under our collective bargaining agreements are insufficient, we may have to contribute more to the plans than our contracted amounts. See the Employee Benefits note to our consolidated financial statements.

Our management team is an important part of our business and loss of key personnel could impair our success.

We benefit from the leadership and experience of our senior management team and depend on their continued services to successfully implement our business strategy. Other than William D. Zollars, our President and Chief Executive Officer, we have not entered into employment agreements for a fixed period with members of our current management. The loss of key personnel could have a material adverse effect on our business, financial condition and results of operations.

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Our business may be harmed by anti-terrorism measures.

In the aftermath of the terrorist attacks on the United States, federal, state and municipal authorities have implemented and are implementing various security measures, including checkpoints and travel restrictions on large trucks. Although many companies will be adversely affected by any slowdown in the availability of freight transportation, the negative impact could affect our business disproportionately. For example, we offer specialized services that guarantee on-time delivery. If the security measures disrupt or impede the timing of our deliveries, we may fail to meet the needs of our customers, or may incur increased expenses to do so. We cannot assure you that these measures will not significantly increase our costs and reduce our operating margins and income.

The outcome of legal proceedings and IRS audits to which the Company and its subsidiaries are a party could have a material adverse effect on our businesses, financial condition and results of operations.

The Company and its subsidiaries are a party to various legal proceedings, including claims related to personal injury, property damage, cargo loss, workers compensation, employment discrimination, breach of contract, multi-employer pension plan withdrawal liability and antitrust violations. See the Commitments, Contingencies and Uncertainties note to our consolidated financial statements. The IRS may issue adverse tax determinations in connection with its audit of our prior year tax returns or the returns of a consolidated group that we acquired in 2005. See the Income Taxes note to our consolidated financial statements. We may incur significant expenses defending these legal proceedings and IRS audits. In addition, we may be required to pay significant awards, settlements or taxes in connection with these proceedings and audits, which could have a material adverse effect on our businesses, financial condition and results of operations.

We may not obtain the projected benefits and cost savings from operational changes and performance improvement initiatives.

In response to our business environment, we initiated operational changes and process improvements to reduce costs and improve financial performance. The changes and initiatives included reorganizing our management, reducing corporate overhead, closing redundant offices and eliminating unnecessary activities. There is no assurance that these changes and improvements will be successful or that we will not have to initiate additional changes and improvements in order to achieve the projected benefits and cost savings.

Our credit agreement and other financing arrangements subject us to various covenants and restrictions that could limit our operating flexibility.

Our credit agreement and other financing arrangements contain covenants and other restrictions that, among other things, require us to satisfy certain financial ratios and restrict our ability to take certain actions, including incur additional indebtedness. The covenants and restrictions in our financing arrangements may limit our ability to respond to market conditions or take advantage of business opportunities by limiting, among other things, the amount of additional borrowings we may incur. See Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Liquidity for additional information regarding our liquidity.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At December 31, 2007, we operated a total of 845 transportation service centers located in 50 states, Puerto Rico, Canada and Mexico. Of this total, 504 were owned and 341 were leased, generally with renewal terms of three years or less. The number of vehicle back-in doors totaled 34,173, of which 23,011 were at owned facilities and 11,162 were at leased facilities. The transportation service centers vary in size ranging from one to three doors at small local facilities, to over 426 doors at the largest consolidation and distribution facility. We own substantially all of the larger facilities which contain the greatest number of doors. In addition, we and our subsidiaries own and occupy general office buildings in Overland Park, Kansas; Akron, Ohio; Lebanon, Pennsylvania; Carlisle, Pennsylvania; Holland, Michigan; and Winnipeg, Manitoba. Our owned transportation service centers and office buildings are unencumbered.

Our facilities and equipment are adequate to meet current business requirements in 2008. Refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , for a more detailed discussion of expectations regarding capital spending in 2008.

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Item 3. Legal Proceedings

We discuss legal proceedings in the Commitments, Contingencies, and Uncertainties note to our consolidated financial statements.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Common Stock

As of January 31, 2008, approximately 16,200 shareholders of record held YRC Worldwide common stock. Our only class of stock outstanding is common stock, traded through the NASDAQ Stock Market. Trading activity averaged 1,490,000 shares per day during 2007, up from 1,324,000 per day in 2006. The NASDAQ Stock Market quotes prices for our common stock under the symbol YRCW. The high and low prices at which YRC Worldwide common stock traded for each calendar quarter in 2007 and 2006 are shown below.

Quarterly Financial Information (unaudited)

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007 [(a)]				
Operating revenue	$ 2,328,342	$ 2,486,505	$ 2,457,731	$ 2,348,738
Losses (gains) on property disposals, net	2,949	(2,788)	1,400	(7,381)
Operating income (loss)	20,400	108,422	87,651	(781,599)
Net income (loss)	1,279	55,367	40,744	(735,771)
Diluted earnings (loss) per share	0.02	0.95	0.70	(12.99)
Common stock:				
High	47.09	45.99	38.51	28.83
Low	37.95	36.59	26.43	15.87
2006 [(b)]				
Operating revenue	$ 2,374,161	$ 2,565,779	$ 2,571,087	$ 2,407,663
Losses (gains) on property disposals, net	882	(3,226)	2,427	(8,443)
Operating income	87,828	172,281	177,591	107,734
Net income	42,136	92,252	95,785	46,459
Diluted earnings per share	0.71	1.58	1.64	0.80
Common stock:				
High	51.54	45.32	44.43	42.49
Low	37.10	36.07	35.27	36.40

(a) The 2007 fourth quarter amounts include an impairment charge of $782 million, additional depreciation expense of $8 million related to the abandonment of certain in-process technology projects and reorganization charges, primarily severance, of $9 million.

(b) The 2006 fourth quarter amounts reflect lower employee benefits expense of $12 million for a change in a non-union vacation payout practice, lower depreciation expense of $14 million for revised depreciation policies and higher acquisition charges of $13 million related to the USF Red Star multi-employer pension plan withdrawal liability.

Purchases of Equity Securities by the Issuer

In April 2006, our Board of Directors approved a stock repurchase program that authorized the Company to repurchase up to $100 million of its common stock. During 2007, the Company purchased 1.1 million shares under this program at a weighted-average cost of $31.13 per share for a total cost of $35.0 million. In 2006, the Company purchased 521,100 shares under this program at a weighted-average cost of $38.34 per share for a total cost of $20.0 million. At December 31, 2007, $45 million remains available under the authorized program.

We did not declare any cash dividends on our common stock in 2007 or 2006.

The information required by this item with respect to information regarding our equity compensation plans is included under the caption Equity Compensation Plan Information in our Proxy Statement related to the 2008 Annual Meeting of Stockholders and is incorporated herein by reference.

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Common Stock Performance

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return of the Company s common stock against the cumulative total return of the S&P Composite-500 Stock Index and the Dow Jones Transportation Average Stock Index for the period of five years commencing December 31, 2002 and ending December 31, 2007.

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Item 6. Selected Financial Data

(in thousands except per share data)	2007	2006	2005[(a)]	2004	2003[(b)]
For the Year					
Operating revenue	$ 9,621,316	$ 9,918,690	$ 8,741,557	$ 6,767,485	$ 3,068,616
Operating income (loss)	(565,126)	545,434	536,310	361,601	88,602
Gains on property disposals, net	(5,820)	(8,360)	(5,388)	(4,547)	(167)
Reorganization and settlements	22,385	26,302	13,029		3,124
Impairment charges	781,875				
Interest expense	88,760	87,760	63,371	43,954	20,606
Net income (loss)	(638,381)	276,632	288,130	184,327	40,683
Depreciation and amortization expense [(c)]	255,603	274,184	250,562	171,468	87,398
Net capital expenditures	338,424	303,057	256,435	164,289	99,134
Net cash from operating activities	392,598	532,304	497,677	435,718	155,736
At Year-End					
Net property and equipment	2,380,473	2,269,846	2,205,792	1,422,718	1,403,268
Total assets	5,062,623	5,851,759	5,734,189	3,627,169	3,463,229
Long-term debt, less current portion	822,048	1,058,496	1,113,085	403,535	836,082
ABS facility	180,000	225,000	374,970		71,500
Total debt	1,234,003	1,283,496	1,488,055	657,935	909,339
Total shareholders equity[(d)]	1,612,304	2,192,549	1,936,488	1,214,191	1,002,085
Measurements					
Basic per share data:					
Net income (loss)	(11.17)	4.82	5.30	3.83	1.34
Average common shares outstanding basic	57,154	57,361	54,358	48,149	30,370
Diluted per share data:					
Net income (loss)	(11.17)	4.74	5.07	3.75	1.33
Average common shares outstanding diluted	57,154	58,339	56,905	49,174	30,655
Debt to capitalization	43.4%	36.9%	43.5%	35.1%	47.6%
Shareholders equity per share	28.43	38.33	33.80	24.66	20.97
Common stock price range:					
High	47.09	51.54	63.40	56.49	36.96
Low	15.87	35.27	39.25	29.77	21.18
Other Data					
Average number of employees	63,000	66,000	68,000	50,000	50,000[(e)]
Operating ratio:					
National Transportation	97.6%	93.8%	93.1%	94.4%	96.1%
Regional Transportation	n/m	94.2%	94.5%	87.0%[(f)]	
YRC Logistics	99.2%	97.8%	96.6%	98.2%	99.8%

(a) Includes the results of all YRC Worldwide entities including USF entities from the date of acquisition, May 24, 2005.
(b) Includes the results of all YRC Worldwide entities including Roadway and New Penn entities from the date of acquisition, December 11, 2003.
(c) Depreciation lives and salvage values were revised effective July 1, 2006. See Property and Equipment footnote.
(d) SFAS No. 158 was adopted effective December 31, 2006. See Employee Benefits Pension and Other Postretirement Benefit Plans footnote.
(e) In 2003, prior to the acquisition of Roadway on December 11, 2003, we had an average of 25,000 employees.
(f) Includes the results of New Penn only in 2004.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. See the introductory section immediately prior to Part I of this report regarding these statements.

Overview

YRC Worldwide Inc., one of the largest transportation service providers in the world, is a holding company that through wholly owned operating subsidiaries offers its customers a wide range of transportation services. These operating subsidiaries are primarily represented by National Transportation, a holding company that includes Yellow Transportation and Roadway, both leading transportation service providers offering a full range of regional, national and international services; Regional Transportation, a holding company for our transportation service providers focused on business opportunities in the regional and next-day delivery markets; and YRC Logistics, a global logistics management company that plans and coordinates the movement of goods worldwide to provide customers a single source for logistics management solutions. These companies represent our reporting segments and are more fully described in Item 1 Business .

The following management s discussion and analysis explains the main factors impacting our results of operations, liquidity and capital expenditures and the critical accounting policies of YRC Worldwide. This information should be read in conjunction with the accompanying financial statements and notes thereto, as well as our detailed discussion of risk factors included in Item 1A.

Our Operating Environment

We operate in a highly competitive environment, yet one where we believe the right value proposition for our customers permits us to recover our cost of capital over the business cycle. Over the last several years, significant changes have occurred in our environment, including: consolidation and liquidation of LTL carriers; the increased presence of large global, service providers; and increasing needs and demands of our customers. We continue to proactively address these changes through our strategy of being a global transportation services provider. Over the last few years, we have expanded our service offerings and completed multiple acquisitions of asset and non-asset-based companies. While growth domestically is always a focus, we have more recently expanded our operations in a global manner initially by completing a freight forwarding joint venture with a Chinese corporation in September 2005. In 2007, we entered into a definitive agreement to acquire a Shanghai based LTL ground transportation provider. This transaction is expected to close in the second quarter of 2008. In 2007, we continued to realign our management structure to identify the best composition of experience and efficiency. In that regard, we announced the consolidation of management of our national LTL companies, Yellow Transportation and Roadway, and the creation of our Enterprise Solutions Group to increase customer focus and service improvements. This combination was designed to allow more focus on offering our entire portfolio of services to our customers. We also announced the formation of YRC North American Transportation, a holding company for all domestic asset based operating companies. This alignment was intended to create one unified management structure for this significant portion of our business.

We will continue to face challenges in the environment that we operate, primarily due to the changing competitive landscape and meeting our stakeholders demands. Specific economic areas that impact our ability to generate profits and cash flows include the levels of consumer spending, manufacturing and overall economic activity. We monitor these areas primarily through several common economic indices, including the gross domestic product (GDP) and the industrial production index (IPI). Real GDP measures the value of goods and services produced in the U.S., excluding inflation, and the IPI measures the physical units and inputs into the U.S. production process. Over time the IPI has been a relatively good indicator for general levels of freight volume available in our markets. We manage the impact of our customers spending, manufacturing and economic activity through, among others, pricing discipline, cost management programs, maintaining adequate debt capacity, investment in technology and continuous improvement programs. In 2007, market conditions were especially weak and contributed to a resulting impairment charge in both our National Transportation and Regional Transportation operating segments totaling $781.9 million.

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Acquisitions and Investments

Shanghai Jiayu Logistics Co., Ltd.

In December 2007, we entered into a definitive agreement to acquire majority ownership of Shanghai Jiayu Logistics Co., Ltd., a Shanghai, China ground transportation company. We plan to acquire 65% of the stock of Jiayu for between US $29.5 million to US $43 million, based upon Jiayu s final 2007 financial performance. Pursuant to the definitive agreement, YRC Logistics will acquire 65% of the stock of Jiayu for Chinese Yuan (CNY) 228.6 million plus an additional payment of up to CNY 104.6 million (approximately $29.5 million to $43 million) based upon Jiayu s 2007 financial performance. If Jiayu meets certain financial performance targets during 2008 and 2009, YRC Logistics will purchase the remaining 35% interest in 2010 for an amount not to exceed CNY 248.0 million (approximately $32 million), as determined by the level of the financial performance. If Jiayu does not meet these financial targets, YRC Logistics has a call option to purchase the remaining 35% of the shares of Jiayu in 2010 for the greater of CNY 77.5 million (approximately $10 million) and 35% of the appraised value of the net assets of Jiayu at that time. All payments will be made in Chinese Yuan, and their estimated dollar equivalents are provided herein. The acquisition is subject to Chinese regulatory approvals, restructuring of certain of Jiayu s operations and other ordinary conditions to closing. We expect the first step of this acquisition to be completed in 2008. We are capitalizing transaction costs incurred related to this acquisition, the balance of which is not significant at December 31, 2007.

USF Corporation

On May 24, 2005, YRC Worldwide completed the acquisition of USF Corporation (USF), headquartered in Chicago, IL, through the merger (the Merger) of a wholly owned subsidiary of YRC Worldwide with and into USF, resulting in USF becoming a wholly owned subsidiary of YRC Worldwide. USF, a leader in the transportation industry, specialized in high-value next-day, regional and national LTL transportation, third-party logistics, and premium regional and national truckload transportation. The company serves the North American market, including the United States, Canada and Mexico, as well as the U.S. territories of Puerto Rico and Guam under the following brands: USF Holland, USF Reddaway, USF Glen Moore and USF Logistics (now part of YRC Logistics). The combined entity offers customers a broad range of transportation services including next day, inter-regional, national and international capabilities.

Pursuant to the Merger, each share of common stock of USF was converted into the right to receive $29.25 in cash and 0.31584 shares of YRC Worldwide common stock resulting in consideration of approximately $835.4 million in cash and 9 million shares for a total purchase price of $1.3 billion. The purchase price also included approximately $14.6 million for investment banking, legal and accounting fees that YRC Worldwide incurred to consummate the acquisition, resulting in total cash consideration of $743.1 million, net of cash acquired. The cash portion of the merger consideration was financed with a combination of proceeds from the issuance of floating rate notes, borrowings under our ABS facility and cash on hand.

GPS Asia

In March 2005, YRC Logistics purchased GPS Logistics Group Ltd., the Asian freight forwarding operations of GPS Logistics and in turn, made a payment of $5.7 million ($3.2 million net of cash acquired). Under the terms of the purchase agreement, this payment was subject to subsequent upward and downward adjustments based on the financial performance of the Asia business through March 2007. Additional earn-out payments could have been required based on the financial performance of the Asia business during the period March 2007 to March 2009.

In January 2006, we paid an additional $11.1 million and issued a promissory note in the amount of $10.8 million representing a buyout of the earn out arrangements and potential purchase price adjustments. These amounts were allocated to goodwill in the consolidated balance sheet. In December 2006, we paid $10.8 million to satisfy the promissory note in full.

JHJ

On September 1, 2005, the Company completed the purchase of a 50% equity interest in JHJ International Transportation Co., Ltd., (JHJ) a Shanghai, China-based freight forwarder, with a purchase price of $46.0 million including transaction costs. The Company accounts for it s ownership in JHJ using the equity method of accounting.

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Results of Operations

This section focuses on the highlights and significant items that impacted our operating results over the last three years. We will discuss the areas that caused material fluctuations and required specific evaluation by management. Our discussion will also explain the adjustments to operating income that management excludes when internally evaluating segment performance because the items are not related to the segments core operations.

Consolidated Results

Our consolidated results include the results of each of the operating segments discussed below and corporate charges for the periods presented. In 2005, consolidated results also included the results of USF from the date of acquisition, May 24, through December 31. A more detailed discussion of the operating results of our segments is presented below.

The following table summarizes the Statement of Consolidated Operations for the three years ended December 31:

				Percent Change	
(in millions)	**2007**	**2006**	**2005**	**2007 vs. 2006**	**2006 vs. 2005**
Operating revenue	$ 9,621.3	$ 9,918.7	$ 8,741.6	(3.0)%	13.5%
Operating income (loss)	(565.1)	545.4	536.3	n/m(a)	1.7%
Nonoperating expenses, net	86.6	89.5	64.0	(3.2)%	39.8%
Net income (loss)	$ (638.4)	$ 276.6	$ 288.1	n/m	(4.0)%

(a) Not meaningful.

2007 compared to 2006

Our consolidated revenue declined 3% in 2007 versus 2006 as reflected in each of our asset-based operating segments. This decrease was primarily a function of decreased shipments resulting from the slowing economy, weak consumer spending trends and the resulting intense competitive pricing environment. While we have experienced lower volumes throughout our entire network, the industrial Midwest has been especially challenging largely due to its dependence on the automotive and related industries. In general, pricing or yield, including fuel surcharge revenue, increased modestly for our National Transportation segment yet was relatively flat for our Regional Transportation segment, which suffered more dramatic competitive pricing pressure.

Consolidated operating revenue includes fuel surcharge revenue. Fuel surcharges are common throughout our industry and represent an amount that we charge to customers that adjusts with changing fuel prices. We base our fuel surcharge on a published national index and adjust it weekly. Rapid material changes in the index or our cost of fuel can positively or negatively impact our revenue and operating income versus prior periods as there is a lag in the Company s adjustment of base rates in response to changes in fuel surcharge. Fuel surcharge is an accepted and important component of the overall pricing of our services to our customers. Without an industry accepted fuel surcharge program, our base pricing for our transportation services would require changes. We believe the distinction between base rates and fuel surcharge has been blurring over time, and it is impractical to clearly separate all the different factors that influence the price that our customers are willing to pay. In general, under our present fuel surcharge program, we believe rising fuel costs are beneficial to us in the short term.

Consolidated operating income decreased significantly from 2006 resulting in an operating loss of $565.1 million in 2007. Included in this operating loss are impairment charges of $781.9 million representing a complete write off of goodwill associated with our Regional Transportation segment as well as reductions in the tradename values attributed to USF (a part of the Regional Transportation segment) and Roadway (a part of the National Transportation segment.) Absent this charge, consolidated operating income was $216.8 million for 2007 versus $545.4 million for 2006. This significant downturn in earnings was experienced by all of our operating companies; however, our Regional Transportation segment experienced the greatest percentage decline on a year-over-year basis. Given its regional concentration, the weak economy in the Upper Midwest impacted this segment more severely. Additionally, we were less effective in reducing our variable costs in the regional market in response to the decline in revenue than in our national market. This is partly attributable to continued challenges associated with the USF Reddaway and USF Bestway February 2007 consolidation. In response to these and other challenges, in February 2008 USF Reddaway closed 21 service centers primarily representing the former USF Bestway footprint. USF Holland closed 6 service centers at this same time.

Our 2007 consolidated operating results were negatively impacted by $27.3 million of reorganization charges, primarily severance and acceleration of stock compensation charges related to terminated executives, of which $9.5 million was included in the Corporate results. Our 2006 consolidated operating results included $10.2 million of similar charges as well as $13.3 million related to a USF Red Star multi-employer pension plan matter. In 2007, we successfully settled certain of these USF Red Star multi-employer pension plan obligations resulting in a gain of $6.4 million. Consolidated operating income also included gains on the sale of property and equipment of $5.8 million and $8.4 million for the years ended December 31, 2007 and 2006, respectively.

Our 2007 nonoperating expenses of $86.6 million included $88.8 million of interest expense as compared to $87.8 million in 2006. Included in the 2007 interest amount is $5.6 million attributed to income tax items. In conjunction with our adoption of FIN No. 48, Accounting for Uncertainty in Income Taxes effective January 1, 2007, we now classify interest related to income tax items in interest expense as opposed to the 2006 classification in income tax provision (benefit). Interest expense attributed to financing arrangements is down slightly from 2006 due to decreased borrowings. Other nonoperating charges in 2007 included foreign currency losses of $5.4 million offset by interest income of $4.4 million and other gains of $3.2 million while 2006 included $4.6 million of charges related to the write down of certain nonoperating assets offset by interest income of $3.1 million.

Our effective tax rate for 2007 was 2.0% compared to 39.3% for 2006. The 2007 rate reflects a $638.6 million goodwill impairment charge that is non deductible for tax purposes. The 2007 rate was favorably impacted by a $1.8 million alternative fuel tax credit related to 2006 and reflects a benefit of $7.1 million for the same type of credit in 2007.

2006 compared to 2005

Our consolidated revenue increased during 2006 as a result of the 2005 USF acquisition and moderate growth at all of our operating segments, including fuel surcharge revenue. In general, pricing or yield increased modestly while overall volumes were down slightly compared to 2005. The volume decline is reflective of a weaker economy especially during the second half of 2006.

Consolidated operating income for 2006 improved slightly versus 2005 primarily due to the USF acquisition; however our consolidated operating ratio declined 0.6 percentage points. Operating ratio refers to a common industry measurement calculated by dividing a company s operating expenses by its operating revenue. Our 2006 results were impacted by adverse development in prior years workers compensation claims offset by favorable accounting changes related to a change in depreciable lives and salvage values of revenue equipment and a change in employees vacation benefit at Roadway as more fully described in our segment discussion. Overall, our operating results were below our internal expectations. As a result, we reduced our performance incentive awards for nearly all employees thereby reducing our expense by $56.3 million versus the prior year period. Our consolidated operating income in 2006 was also unfavorably impacted by a $13.3 million charge related to a USF Red Star multi-employer pension plan matter, $10.2 million of restructuring and reorganization charges and $2.8 million due to the loss on sale of a subsidiary. These amounts were offset by $8.4 million of gains generated from the sale of property and equipment.

Our 2006 nonoperating expenses of $89.5 million included $87.8 million of interest expense while the 2005 comparable amount was $63.4 million. The increase is reflective of our higher interest rates on variable rate debt in 2006 as compared to 2005 and our higher average debt levels due to the USF acquisition. We did reduce our overall indebtedness by $204.6 million during 2006. The 2006 nonoperating expense amount also includes $4.6 million of impairment charges relating to certain nonoperating assets with no corresponding amount in the prior year.

Our effective tax rate for 2006 was 39.3% compared to 39.0% for 2005. The 2006 amount is reflective of a slightly higher effective state rate.

National Transportation Results

National Transportation represented approximately 69%, 69% and 77% of our consolidated revenue in 2007, 2006 and 2005, respectively. The table below provides summary information for National Transportation for the three years ended December 31:

				Percent Change	
(in millions)	**2007**	**2006**	**2005**	**2007 vs. 2006**	**2006 vs. 2005**
Operating revenue	$ 6,657.8	$ 6,878.6	$ 6,735.3	(3.2)%	2.1%
Operating income	159.3	423.3	464.4	(62.4)%	(8.9)%
Operating ratio	97.6%	93.8%	93.1%	3.8pp	0.7pp(a)

(a) Percentage points.

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2007 compared to 2006

National Transportation revenue decreased $220.8 million or 3.2% in 2007 compared to 2006. The two primary components of operating revenue are volume, comprised of the number of shipments and weight per shipment, and price or yield, usually evaluated on a per hundred weight basis for LTL business. The decline in operating revenue was largely driven by a 6.1% decline in total picked up tonnage per day, with truckload tonnage per day down more dramatically at 7.5% and LTL tonnage per day down 5.8%. The tonnage decline is primarily the result of a slowing economy, and we believe that the freight transportation sector has also experienced softening business levels in 2007 based on reports of tonnage declines. As the economy has slowed, capacity has become more readily available and competition for available loads has increased. The decline in LTL tonnage was made up of a 4.4% decrease in shipments per day and a 1.6% decline in weight per shipment. Partially offsetting the reduction in volume was a 2.4% increase in LTL revenue per hundred weight which includes higher fuel surcharge revenue.

Operating income for National Transportation decreased $264.0 million or 62.4% in 2007 compared to the previous year. The decrease was primarily a result of lower revenue, a tradename impairment charge of $76.6 million and higher purchased transportation of $34.6 million, partially offset by lower salaries, wages and benefits of $45.7 million, lower depreciation and amortization expense of $17.2 million and lower other operating expenses of $6.8 million. Additionally, the prior year results included a $4.0 million recovery of business interruption insurance related to hurricane Katrina and $3.5 million of costs associated with hosting an industry conference. No such conference was held in 2007, resulting in lower costs compared to the prior year period.

The impairment charge resulted from a reduction in the calculated fair value of the Roadway tradename. The fair value decline in our tradename was largely the result of a change in the assumptions (primarily discount rate and long-term revenue growth) used in the valuation model versus those used at the original acquisition date in 2003. Assumptions are reflective of current economic conditions, including the slow recovery in sectors impacting transportation.

Purchased transportation costs were higher primarily due to a change in administering certain intercompany transactions, certain new business initiatives with one of our largest customers and a contractual increase with our primary rail provider, partially offset by lower rail usage due largely to lower volumes. Effective July 2007, we began recording both revenue and intercompany expense, primarily purchased transportation, for transactions serviced by YRC Logistics that we otherwise could not service within our network. We also pay a transaction fee to YRC Logistics that is included in purchased transportation. Previously the revenue and purchased transportation were recorded by YRC Logistics. This change does not affect the consolidated financial statements of YRC Worldwide.

Salaries, wages and benefits were lower due to lower workers compensation costs of $24.9 million and lower hourly wages and benefits of $17.7 million. Hourly wages and benefits declined due to lower volumes and were partially offset by the annual contractual wage and benefit increase combined with having fewer new hire employees on the lower end of the union wage progression scale and having fewer casual (i.e. part time, supplemental) employees. As volumes decline, it is more challenging to utilize casual employees who are used to supplement our regular workforce and have a lower overall cost as employees with greater seniority at higher wage rates must be utilized first under our labor agreement. Additionally, there have been fewer newly hired employees who have a lower initial cost than regular employees due to the wage progression. The prior year results included a reduction to expense of $11.8 million due to a change in our vacation practices. The reduced workers compensation cost is attributed to the absence of material unfavorable changes in the development of prior year claims that we experienced in 2006.

Depreciation expense was lower primarily because of a change in depreciable lives and salvage values of revenue equipment effective July 1, 2006 reducing 2007 depreciation expense by $26.5 million. This reduction was offset by $9.3 million of technology amortization expense related to certain abandoned internal technology projects previously considered in process. As National Transportation moves to a common technology platform, these projects were identified as non-strategic and not a part of the future direction of the reporting unit.

Other operating expenses decreased mostly due to lower operating taxes and licenses of $4.3 million. Cargo claims expense in 2007 was flat when compared to 2006. Additional resources were allocated for improving cargo claim frequency and resulted in lower year over year claims expense primarily during the second half of 2007.

During the year ended December 31, 2007, National Transportation reported net gains of property disposals of $8.3 million versus $6.4 million in 2006. The primary contributor to the 2007 amount was a gain of $5.7 million on the sale of a property in California.

Reorganization charges in 2007, primarily severance costs, of $6.7 million were largely the result of combining management structures of Yellow Transportation and Roadway to form National Transportation, as discussed in the Overview. During the year ended 2006, we incurred $4.3 million of severance costs associated with a significant realignment in operations and a related reduction in workforce.

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Operating expenses as a percentage of revenue increased during the year ended 2007 by 3.8 percentage points compared to 2006, resulting in a year-to-date 2007 operating ratio of 97.6%.

2006 compared to 2005

National Transportation revenue increased by $143.3 million or 2.1% in 2006 compared to 2005 due to a firm pricing environment including higher fuel surcharge revenue but was partially offset by lower tonnage. LTL revenue per hundred weight, which includes increased fuel surcharge revenue, increased in 2006 by 3.1% compared to the prior year. In 2006, LTL shipments per day declined 1.8% and LTL tonnage per day decreased 0.5% from 2005 which resulted in LTL weight per shipment increasing by 1.4%. The decline in volume was primarily attributable to slower economic growth in 2006 than in 2005.

National Transportation operating income declined by $41.1 million or 8.9% in 2006 compared to 2005. This decline resulted from higher wages and benefits of $81.3 million due primarily to contractual labor increases, higher operating expenses and supplies (mainly fuel) of $53.2 million, higher workers compensation expense of $33.8 million associated with unfavorable development of prior year claims, and higher purchased transportation costs of $43.8 million.

Other cost increases during 2006 included increase cargo claims expense of $9.5 million due to higher claim frequency and $4.3 million of expense related to a realignment of operations during 2006. In January 2006, we hosted an industry conference incurring $3.5 million of costs that were not present in 2005. Additionally, depreciation expense was $0.6 million higher than 2005 despite the favorable impact of useful life and salvage changes described below.

A portion of the purchased transportation increase is due to the railroad providers discontinuing their business practice of providing rail-owned trailers for intermodal movement. This change led to leasing and purchasing of additional trailers, additional costs for repositioning trailers and declining productivity.

The decline in operating income was partially offset by higher operating revenues, including higher fuel surcharge revenue, as well as lower nonunion incentive compensation of $40.5 million, the favorable impact of $11.8 million associated with a change in the vacation payout practice during the year, the favorable impact of $19.7 million associated with lower depreciation due to the increase in useful lives and salvage values as well as $4.0 million related to the recovery of business interruption insurance related to hurricane Katrina.

Operating expenses as a percentage of revenue increased by 0.7 percentage points in 2006 compared to 2005 and resulted in an operating ratio of 93.8% for 2006.

Regional Transportation Results

Regional Transportation represented approximately 25%, 25% and 18% of our consolidated revenue in 2007, 2006 and 2005, respectively. This segment includes the results of New Penn and, effective May 24, 2005, the results of the LTL and truckload (TL) operating companies of USF. Beginning in 2006, results do not include USF Red Star and USF Dugan, entities that have ceased operations, that are now included in the Corporate results.

The table below provides summary financial information for Regional Transportation for the three years ended December 31:

				Percent Change	
(in millions)	**2007**	**2006**	**2005**	**2007 vs. 2006**	**2006 vs. 2005**
Operating revenue	$ 2,369.6	$ 2,441.4	$ 1,570.8	(2.9)%	n/m[(a)]
Operating income (loss)	(706.7)	142.2	85.8	n/m	n/m
Operating ratio	n/m	94.2%	94.5%	n/m	(0.3pp)[(b)]

(a) Not meaningful.
(b) Percentage points.

2007 compared to 2006

Regional Transportation reported 2007 operating revenue of $2,369.6 million, representing a decrease of $71.8 million or 2.9% from 2006. With the same number of workdays in both years, the decline in operating revenue was largely driven by a 3.8%

decline in total tonnage picked up, with truckload tonnage being down more dramatically at 9.7% and LTL tonnage down 2.4%. Regional Transportation volume decline is consistent with that experienced by National Transportation and also heavily concentrated in the industrial Midwest. As the economy slowed, capacity became more readily available, particularly in the truckload portion of the business, and competition for available loads increased. The decline in LTL tonnage was made up of a 0.9% decrease in shipments per day and a 1.6% decline in weight per shipment.

Partially offsetting the reduction in volume was a 0.8% increase in LTL revenue per hundred weight, which includes increased fuel surcharge revenue. Although pricing remains slightly positive on a year-over-year basis, it continues to be a challenge to obtain sustainable increases due to the amount of capacity in the market and increased pricing pressure from competitors.

Operating loss in 2007 for Regional Transportation was $706.7 million, compared to $142.2 million operating income for 2006. Although revenue declined $71.8 million, operating expenses increased $777.1 million. The largest factor was a $705.3 million non-cash charge taken in the fourth quarter relating to impairment of goodwill and intangible assets on Regional Transportation s balance sheet. Other expense increases were in salaries, wages and benefits of $39.3 million, operating expenses and supplies of $34.3 million, and other operating expenses of $3.4 million. Slightly offsetting these increases were decreases in purchased transportation of $9.3 million and depreciation of $5.3 million.

Salaries, wages and benefits expense increased despite lower LTL tonnage and reductions in non-union incentive accruals and salaried headcount. The primary reasons for the increase were higher contractual wage expenses and associated benefits. Inefficiencies in the networks of USF Holland and USF Reddaway drove higher wages because of their negative impact on productivity.

Operating expenses and supplies were higher due to several unfavorable factors including higher fuel costs, vehicle maintenance costs and corporate overhead, offset by reductions in uncollectible revenue. Other operating expenses were higher due to higher fuel taxes driven by correspondingly higher fuel costs, and a higher provision for bodily injury and property damage claims.

Purchased transportation was lower due mainly to the in-sourcing of linehaul carriage from third-party providers. Depreciation was lower due to a change in depreciable life policy beginning in July 2006, reduction in assets due to terminal consolidation at USF Reddaway and lower equipment counts.

During 2007, Regional Transportation incurred impairment charges of $705.3 million as previously discussed. Additionally, Regional Transportation incurred $7.9 million of reorganization expenses related to the closure of USF Bestway and the consolidation of terminals into USF Reddaway s California network. Regional Transportation also reported net gains on property disposals in 2007 of $1.4 million compared to net gains on property disposals of $3.0 million in 2006.

2006 compared to 2005

Regional Transportation s 2005 results reflect the inclusion of the USF companies as of May 24, 2005. This makes the comparison of 2006 to 2005 less meaningful. Due to the lack of comparability, management evaluated the segment s results in 2006 and 2005 primarily based on a combination of sequential growth month over month and attainment of plan performance.

Regional Transportation reported revenue of $2,441.4 million for 2006, as compared to $1,570.8 million for 2005. The increased revenue, including higher fuel surcharge revenue, is primarily attributed to the USF acquisition reduced by the impact of a slowing economy.

Regional Transportation reported operating income of $142.2 million for 2006 as compared to $85.8 million, for 2005. The 2006 operating income reflects the contribution from the USF acquisition for a full year, higher fuel surcharge revenue and continued cost management.

For 2006 net adjustments to operating income were a negative $3.0 million representing gains from the disposal of property and equipment, primarily related to the sale of USF Bestway s headquarters. For 2005, net adjustments to operating income were a positive $8.8 million representing $8.3 million of shut down and acquisition charges as well as $0.5 million of losses on fixed asset disposals. Regional Transportation reported a 2006 operating ratio of 94.2% compared to 94.5% in 2005 which included New Penn for the entire year, and the USF companies after the May 24, 2005 acquisition.

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YRC Logistics Results

YRC Logistics represented approximately 6%, 6% and 5% of our consolidated revenue in 2007, 2006 and 2005, respectively. This segment includes the results of YRC Logistics and, effective May 24, 2005, the results of the USF Logistics group of entities. The table below provides summary financial information for YRC Logistics for the three years ended December 31:

				Percent Change	
(in millions)	**2007**	**2006**	**2005**	**2007 vs. 2006**	**2006 vs. 2005**
Operating revenue	$ 623.2	$ 609.7	$ 447.6	2.2%	36.2%
Operating income	5.2	13.7	15.2	(62.4)%	(9.9)%
Operating ratio	99.2%	97.8%	96.6%	1.4pp(a)	(1.2pp)

(a) Percentage points.

2007 compared to 2006

For the year 2007, YRC Logistics revenue increased by $13.5 million or 2.2%. Revenue and expense associated with the fulfillment of certain of National Transportation s domestic forwarding business line were recorded within the National Transportation segment effective July 2007. Previously such revenue and related expense were recorded in the YRC Logistics segment. The transfer of this revenue resulted in a decrease of revenue of $27.2 million for 2007 compared to the same period in 2006 with minimal impact on operating income as the corresponding purchased transportation was also transferred. Excluding this revenue, YRC Logistics revenue increased by $40.7 million or 6.7% driven by increases in transportation services and distribution services.

Operating income decreased $8.5 million in 2007 including $3.3 million in reorganization charges in 2007. Despite the 6.7% growth discussed above, in the current year YRC Logistics was challenged with pressure from an economic slowdown which hampered revenue growth as it relates to our expectations. Operating expenses were not reduced as quickly in response to sluggish revenue growth rates. Distribution services however performed better than our other offerings with stronger revenue gains. As a result, operating expenses for this business line increased $5.4 million or 9.7% in 2007 as compared to 2006. Claims and insurance expenses increased approximately $3.6 million in 2007 compared to 2006, primarily attributable to a favorable adjustment in 2006 relating to prior year claims development.

2006 compared to 2005

For the year 2006, YRC Logistics revenue increased by $162.1 million or 36.2% from 2005. A significant portion of this increase is attributable to the USF Logistics acquisition which occurred May 24, 2005. In addition to the acquisition growth, the Global Services and Transportation Services business lines all had significant organic gains (approximately $9 million and $15 million, respectively). Operating income decreased from $15.2 million in 2005 to $13.7 million in 2006 yet reflects $7.0 million in reorganization charges in 2006. Absent these charges operating income would have increased 37.7% from 2005.

In the second quarter of 2006 YRC Logistics decided to relocate substantially all of its operations in Greenwood, Indiana to Overland Park, Kansas. This relocation was completed in 2006 and reorganization charges of $4.2 million were incurred.

In September 2006, YRC Logistics sold its mainland China freight forwarding operations into the joint venture that it maintains with JHJ. YRC Logistics acquired this freight forwarding operation in 2005 as part of the acquisition of GPS Logistics. In 2005 we acquired a 50% stake in the freight forwarding operations of JHJ, which is one of the largest freight forwarders in China. The two organizations had overlapping capabilities in multiple locations in China, and therefore a decision was made to combine the operations to increase operational focus. Reorganization charges of $2.8 million were recorded as a result of the loss on the sale of this subsidiary.

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Financial Condition

Liquidity

Our liquidity needs arise primarily from capital investment in new equipment, land and structures and information technology, as well as funding working capital requirements and acquisitions. To provide short-term and longer-term liquidity, we maintain capacity under a $1.1 billion unsecured bank credit agreement, which includes a fully drawn $150 million term loan and a $950 million revolving loan, and a $700 million asset backed securitization (ABS) facility involving the accounts receivable of Yellow Transportation, Roadway, USF Holland and USF Reddaway.

The following table provides details of the outstanding components and unused capacity under the unsecured revolving credit facility and the ABS facility at December 31:

(in millions)	2007	2006
Capacity:		
Revolving loan	$ 950.0	$ 850.0
ABS facility	700.0	650.0
Total capacity	1,650.0	1,500.0
Amounts outstanding:		
Revolving loan	(5.1)	
Letters of credit	(473.2)	(482.0)
ABS facility	(180.0)	(225.0)
ABS usage for captive insurance company (see below)	(201.4)	(189.4)
Total outstanding	(859.7)	(896.4)
Unused capacity	$ 790.3	$ 603.6

As shown above, the ABS facility permits borrowings of up to $700 million based on qualifying accounts receivable of the Company. However, at December 31, 2007, our underlying accounts receivable supported total capacity under the ABS facility of $598.9 million. Considering this limitation, our unused capacity at December 31, 2007 was $689.2 million.

While the above reflects the stipulated unused capacity per the respective agreements, our borrowing ability is further restricted by our performance covenants, specifically the leverage ratio, that limits total outstanding indebtedness to three times our trailing twelve months earnings before interest, taxes, depreciation and amortization or EBITDA, as defined. Given this requirement, total indebtedness could only have been increased by approximately $245 million at December 31, 2007 despite the unused capacity reflected above in order for us to remain in compliance with the leverage ratio covenant.

YRC Assurance Co. Ltd. (YRC Assurance) is the Company s captive insurance company domiciled in Bermuda and a wholly owned and consolidated subsidiary of YRC Worldwide. YRC Assurance provides insurance services to certain wholly owned subsidiaries of YRC Worldwide. As a part of the structure of YRC Assurance, certain qualifying investments are periodically made by YRC Assurance as defined by Bermuda regulations. These investments can include taking an ownership position in certain receivables that secure our ABS facility. As a result, as shown in the table above, our capacity under the ABS facility is reduced by YRC Assurance s investment in receivables of $201.4 million at December 31, 2007.

Contingent Convertible Notes

The balance sheet classification of our contingent convertible notes between short-term and long-term is dependent upon certain conversion triggers, as defined in the applicable indentures. At December 31, 2007 and 2006, the conversion triggers had not been met. Accordingly, based on the effective maturity dates pursuant to noteholder put rights as more fully described in Note 6. Debt and Financing, this obligation has been classified as a long-term liability on the accompanying balance sheets.

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Credit Rating

As of the date of this filing, the credit rating and outlook assigned to us by the three major rating agencies were as follows:

	Corporate/Issuer Rating	Outlook
Fitch	BB+	Negative
Moody s	Ba1	Negative
S&P	BB	Negative

A credit rating reflects an assessment by the rating agency of the credit risk associated with a corporate entity or particular securities issued by that entity. Credit ratings are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by the assigning rating agency. Each rating agency may have different criteria for evaluating risk, and therefore, ratings should be evaluated independently. Lower credit ratings generally result in higher borrowing costs and reduced access to capital markets. The agencies have indicated that our lower ratings are primarily a reflection of the rating agencies concerns regarding ongoing weakness in the U.S. economy pressuring our financial performance, specifically cash flow and profitability.

As a result of the credit rating actions by the rating agencies since December 2007, our borrowing costs under our Credit Facility have increased up to .25%. If our credit rating is lowered by Moody s to Ba2 or by Fitch to BB, our borrowing costs will increase by an additional .25%. Further downgrades by the three major rating agencies would not result in additional increased borrowing costs.

None of our debt agreements require accelerated repayment as a result of lower credit ratings. However, our Contingent Convertible Senior Notes have a conversion right if our note rating is lower than B2 by Moody s or B by S&P or if the notes are no longer rated by at least one rating service. Despite our existing credit ratings, we believe we will continue to have adequate access to the capital markets sufficient to meet our expected needs for financial flexibility.

Cash Flow Measurements

We use free cash flow as a measurement to determine the amounts available to fund strategic capital allocation alternatives. Free cash flow indicates cash available to fund additional capital expenditures, to reduce outstanding debt (including current maturities), repurchase outstanding common shares, or to invest in our growth strategies. This measurement is used for internal management purposes and should not be construed as a better measurement than net cash from operating activities as defined by generally accepted accounting principles.

The following table illustrates our calculation for determining free cash flow for the years ended December 31:

(in millions)	2007	2006	2005
Net cash from operating activities	$ 392.6	$ 532.3	$ 497.7
Net property and equipment additions	(338.4)	(303.1)	(256.4)
Proceeds from stock options	6.5	5.7	11.2
Free cash flow	$ 60.7	$ 234.9	$ 252.5

Net cash provided by operating activities decreased from 2006 to 2007 and is reflective of our decreased operating results. During 2007 we made pension contributions of $134.3 million and accrued pension expense of $48.7 million versus $72.1 million of pension contributions and accrued pension expense of $61.5 million in 2006. Additionally, we settled certain obligations with multi-employer pension plans and remitted payments of $45.5 million related to this withdrawal liability in 2007 compared to $16.2 million of payments remitted and accrued expense of $13.3 million in 2006. Our accounts receivable declined in the current year due to a combination of lower business volumes and increased efforts at improving our cash collections. Further, in 2007 we received net tax refunds of $48.1 million, included in Prepaid expenses and other in the accompanying balance sheets, versus net tax payments in 2006 of $109.5 million.

Net cash provided by operating activities increased $34.6 million from 2005 to 2006. Pre-tax operating income adjusted for non-cash items such as depreciation, amortization and gains/losses on dispositions increased $34.8 million during 2006 as compared to 2005. This earnings-based increase was offset by increases in pension contributions of $23.1 million, interest payments of $27.9 million and income tax payments of $9.1 million. Additionally, positive trends in accounts receivable resulting in cash provided of $42.1 million was offset by a reduction in incentive bonus accruals of $42.0 million. Prepaid amounts decreased by $11.0 million and a USF investment account of $7 million was liquidated, both of which provided cash in 2006.

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In 2007, net property and equipment additions increased by $35.3 million compared to 2006. Gross property and equipment additions for 2007 were $393.8 million versus $377.7 million for 2006 with the increase primarily due to technology investments and terminal and facility construction. Revenue equipment purchases of $268.9 million were consistent with 2006 which is in line with our fleet replacement patterns. See a more detailed discussion of 2007 activity below in Capital Expenditures .

In 2006, net property and equipment additions increased by $46.7 million compared to 2005. Gross property and equipment additions for 2006 were $377.7 million versus $304.7 million for 2005 with the increase primarily due to increased revenue equipment purchases at Roadway of $37.4 million and Yellow Transportation of $15.0 million in an effort to continue to reduce the overall age of our fleet.

Other than property and equipment activity discussed above, cash used in investing activities in 2007 also includes transaction costs associated with the pending acquisition of Shanghai Jiayu Logistics Co., Ltd. and other immaterial investments. The amounts reported in 2006 include the additional payments of $21.9 million to the seller of GPS Asia and $2.5 million to GPS Logistics (EU) Limited, both under contractual earn-out obligations. The amounts reported for 2005 reflect our acquisition of the USF companies of $742.7 million and our investment in the JHJ joint venture of $46.0 million.

Net cash used in financing activities was $69.7 million in 2007 versus $209.3 million for 2006. The 2007 activity is a result of $35.0 million of treasury stock repurchases, $39.9 million of net debt reduction and $1.3 million of debt issuance costs related to the modification and expansion of our credit facility, offset by stock option proceeds of $6.5 million. The 2006 activity is the result of $20.0 million of treasury stock repurchases and $195.0 million of debt pay down offset by stock option proceeds of $5.7 million. Cash provided by financing activities of $522.5 million in 2005 reflect the borrowings related to the acquisition of the USF companies and stock option proceeds of $11.2 million offset by treasury stock repurchases of $50.0 million.

Capital Expenditures

Our capital expenditures focus primarily on the replacement of revenue equipment, land and structures, investments in information technology and acquisitions. As reflected on our Consolidated Balance Sheets, our business is capital intensive with significant investments in service center facilities and a fleet of tractors and trailers. We determine the amount and timing of capital expenditures based on numerous factors, including anticipated growth, economic conditions, new or expanded services, regulatory actions and availability of financing.

The table below summarizes our actual net capital expenditures by type and investments for the years ended December 31:

(in millions)	2007	2006	2005
Revenue equipment	$ 261.4	$ 268.2	$ 180.4
Land, structures and technology	77.0	34.9	76.0
Total net capital expenditures	338.4	303.1	256.4
Acquisition of companies and affiliates		25.6	799.9
Total	$ 338.4	$ 328.7	$ 1,056.3

Capital expenditures for revenue equipment in 2007 were consistent with 2006. Our 2007 technology expenditures increased $11.5 million versus 2006 as we continue to invest in common platforms for our asset-based operating companies. Proceeds on land sales in 2007 were $47.7 million versus $74.6 million in 2006. Capital expenditures for 2006 reflect a full year of revenue equipment purchases for Regional Transportation as well as continued reinvestment in the National Transportation fleet. The 2006 amount also reflects $21.9 million related to the acquisition of GPS Asia. Capital expenditures for 2005 reflect the inclusion of $63.7 million net expenditures of USF activity at Regional Transportation and the cash portion of the USF acquisition of $742.7 million. We expect 2008 net capital spending to approximate $200 to $250 million. We believe our financial condition and access to capital, as they exist today, are adequate to fund our anticipated capital expenditures and future growth opportunities.

Our expectation regarding our ability to fund capital expenditures out of existing financing facilities and cash flow is only our forecast regarding this matter. This forecast may be substantially different from actual results. In addition to the factors previously described in the Forward-Looking Statements section, the following factors could affect levels of capital expenditures: the accuracy of our estimates regarding our spending requirements; the occurrence of any unanticipated acquisition opportunities; changes in our strategic direction; the need to spend additional capital on cost reduction opportunities; the need to replace any unanticipated losses in capital assets and our ability to dispose of excess real estate at our anticipated sales price.

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Nonunion Pension Obligations

We provide defined benefit pension plans for certain employees not covered by collective bargaining agreements. The two largest plans are the qualified plans for Yellow Transportation and Roadway. The Yellow Transportation and Roadway qualified plans cover approximately 4,000 employees each. On January 1, 2004, the existing qualified benefit plans were closed to new participants. All new U.S. salaried nonunion employees (except those currently participating in other profit sharing plans) and all YRC Logistics employees now participate in a defined contribution retirement plan.

We expect pension funding and expense to remain an area of management focus over the next several years. The Pension Protection Act of 2006 encourages companies to fully fund their benefit obligation by 2011. Based on discussions with our pension advisors, we made significant contributions in 2007 and expect to continue to accelerate our contributions in the near term to better meet the fully funded requirement. Given the dependence on the economy and the significant amounts involved, pension funding could have a material impact on our liquidity. Using our current plan assumptions, which include an assumed 8.50% return on assets and discount rate of 6.61%, we either recorded or expect to record the following for all YRC sponsored pension plans.

(in millions)	Cash Funding	Pension Expense	Under Funded Status at December 31
2007 Actual	$ 134.3	$ 48.7	$ 137.0
2008 Expected	58.6	34.7	108.2
2009 Expected	46.4	30.3	86.9
2010 Expected	44.9	27.9	62.9

Due to the impact of economic conditions on the Company s plan assumptions it is reasonably possible that such assumptions may change in the near term and that such changes could materially impact amounts recorded or expected to be recorded in the consolidated financial statements.

The above discussion includes forward-looking statements as indicated by expect and estimate and the actual results may be materially different. Factors that affect these results include actual return on plan assets and discount rate changes among others.

Contractual Obligations and Other Commercial Commitments

The following tables provide aggregated information regarding our contractual obligations and commercial commitments as of December 31, 2007. Most of these obligations and commitments have been discussed in detail either in the preceding paragraphs or the notes to the financial statements. The tables do not include expected pension funding as disclosed separately in the previous section.

Contractual Cash Obligations

	Payments Due by Period				
(in millions)	Less than 1 year	2-3 years	4-5 years	After 5 years	Total
Balance sheet obligations:[(a)]					
ABS borrowings	$ 180.0	$	$	$	$ 180.0
Current and long-term debt including interest[(b)]	297.5	582.0	325.5		1,205.0
USF Red Star multi-employer pension withdrawal obligation including interest	1.7	3.5	3.5	1.2	9.9
Off balance sheet obligations:					
Operating leases	101.7	109.6	37.4	19.2	267.9
Capital expenditures	80.0				80.0
Total contractual obligations	$ 660.9	$ 695.1	$ 366.4	$ 20.4	$ 1,742.8

(a) Total liabilities for unrecognized tax benefits as of December 31, 2007, were $75.9 million and are classified on the Company s consolidated balance sheet within Other Current and Accrued Liabilities .

(b) Long-term debt maturities are reflected by contractual maturity for all obligations other than the contingent convertible senior notes. These notes are instead presented based on the earliest possible redemption date defined as the first date on which the note holders have the option to require us to purchase their notes.

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As previously discussed in Acquisitions and Investments , we entered into a definitive agreement to acquire Shanghai Jiayu Logistics Co., Ltd. We anticipate this transaction closing in 2008 at which time we will pay between $29.5 million to $43 million. Further, in 2010 we could pay an additional amount not to exceed $32 million.

We expect in the ordinary course of business that our operating leases will be renewed or replaced as they expire. The leases provide for fixed and escalating rentals and contingent escalating rentals based on the Consumer Price Index not to exceed certain specified amounts. We record rent expense for our operating leases on a straight-line basis over the base term of the lease agreements. In many cases our subsidaries enter into leases and a parent guarantee is issued. The maximum amount of undiscounted future payments under the guarantee are the same as the contractual cash obligations disclosed above.

Other Commercial Commitments

The following table reflects other commercial commitments or potential cash outflows that may result from a contingent event, such as a need to borrow short-term funds due to insufficient free cash flow.

	Amount of Commitment Expiration Per Period				
(in millions)	**Less than 1 year**	**2-3 years**	**4-5 years**	**After 5 years**	**Total**
Unused line of credit	$ 190.9	$	$ 599.4	$	$ 790.3
Letters of credit	473.2				473.2
Lease guarantees	0.4				0.4
Surety bonds	105.3	0.1	0.1		105.5
Total commercial commitments	$ 769.8	$ 0.1	$ 599.5	$	$ 1,369.4

Critical Accounting Policies

Preparation of our financial statements requires accounting policies that involve significant estimates and judgments regarding the amounts included in the financial statements and disclosed in the accompanying notes to the financial statements. We continually review the appropriateness of our accounting policies and the accuracy of our estimates including discussion with the Audit/Ethics Committee of our Board of Directors who make recommendations to management regarding these policies. Even with a thorough process, estimates must be adjusted based on changing circumstances and new information. Management has identified the policies described below as requiring significant judgment and having a potential material impact to our financial statements.

Revenue Reserves

We consider our policies regarding revenue-related reserves as critical based on their significance in evaluating our financial performance by management and investors. We have an extensive system that allows us to accurately capture, record and control all relevant information necessary to effectively manage our revenue reserves.

For shipments in transit, National Transportation and Regional Transportation record revenue based on the percentage of service completed as of the period end and accrue delivery costs as incurred. In addition, National Transportation and Regional Transportation recognize revenue on a gross basis because the entities are the primary obligors even when they use other transportation service providers who act on their behalf. National Transportation and Regional Transportation remain responsible to their customers for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. YRC Logistics recognizes revenue upon the completion of services. In certain logistics transactions where YRC Logistics acts as an agent, revenue is recorded on a net basis. Net revenue represents revenue charged to customers less third party transportation costs. Where YRC Logistics acts as principal, it records revenue from these transactions on a gross basis, without deducting transportation costs. Management believes these policies most accurately reflect revenue as earned. Our revenue-related reserves involve three primary estimates: shipments in transit, rerate reserves and uncollectible accounts.

Shipments in Transit

We assign pricing to bills of lading at the time of shipment based primarily on the weight, general classification of the product, the shipping destination and individual customer discounts. This process is referred to as rating. At the end of each period, we estimate the amount of revenue earned on shipments in transit based on actual shipments picked up and scheduled delivery dates. We calculate a percentage of completion using this data and the day of the week on which the period ends. Management believes this provides a reasonable estimation of the revenue actually earned.

Rerate Reserves

At various points throughout our customer invoicing process, incorrect ratings could be identified based on many factors, including weight verifications or updated customer discounts. Although the majority of rerating occurs in the same month as the original rating, a portion occurs during the following periods. We accrue a reserve for rerating based on historical trends. At December 31, 2007 and 2006, our financial statements included a rerate reserve of $35.7 million and $37.9 million, respectively. The modest decrease in the rerate reserve from 2006 to 2007 resulted primarily from the decrease in operating revenue in 2007.

Uncollectible Accounts

We record an allowance for doubtful accounts primarily based on historical uncollectible amounts. We also take into account known factors surrounding specific customers and overall collection trends. Our process involves performing ongoing credit evaluations of customers, including the market in which they operate and the overall economic conditions. We continually review historical trends and make adjustments to the allowance for doubtful accounts as appropriate. Our allowance for doubtful accounts totaled $34.9 million and $35.7 million as of December 31, 2007 and 2006, respectively.

Claims and Self-Insurance

We are self-insured up to certain limits for workers compensation, cargo loss and damage, property damage and liability claims. We measure the liabilities associated with workers compensation and property damage and liability claims primarily through actuarial methods that an independent third party performs. Actuarial methods include estimates for the undiscounted liability for claims reported, for claims incurred but not reported and for certain future administrative costs. These estimates are based on historical loss experience and judgments about the present and expected levels of costs per claim and the time required to settle claims. The effect of future inflation for costs is implicitly considered in the actuarial analyses. Actual claims may vary from these estimates due to a number of factors, including but not limited to, accident frequency and severity, claims management, changes in healthcare costs and overall economic conditions. We discount the actuarial calculations of claims liabilities for each calendar year to present value based on the average U.S. Treasury rate, during the calendar year of occurrence, for maturities that match the initial expected payout of the liabilities. As of December 31, 2007 and 2006, we had $478.3 million and $504.4 million accrued for claims and insurance, respectively. The decrease in claims and insurance from 2006 to 2007 is a result of favorable development in prior year workers compensation claims and increased payments on property damage and liability claims.

Pension

With the exception of YRC Logistics, Regional Transportation, Reimer and certain of our foreign operations, YRC Worldwide and its operating subsidiaries sponsor qualified and nonqualified defined benefit pension plans for most employees not covered by collective bargaining agreements. YRC Logistics and Regional Transportation do not offer defined benefit pension plans and instead offer retirement benefits through either contributory 401(k) savings plans or profit sharing plans. Effective January 1, 2004, the existing YRC Worldwide qualified defined benefit plans were closed to new participants, and all new U.S. salaried nonunion employees (except those currently participating in other profit sharing plans) and all YRC Logistics employees participate in a defined contribution retirement plan. We account for pension benefits using actuarial methods based on numerous estimates, including employee turnover, mortality and retirement ages, expected return on plan assets, discount rates, and future salary increases. The most critical of these factors, due to their potential impact on pension cost, are discussed in more detail below.

Return on Plan Assets

The assumption for expected return on plan assets represents a long-term assumption of our portfolio performance that can impact our pension expense. With $929 million of plan assets for the YRC Worldwide funded pension plans, a 50-basis-point decrease in the assumption for expected rate of return on assets would increase annual pension expense by approximately $4.3 million and would have no effect on the underfunded pension liability reflected on the balance sheet.

In determining the expected rate of return on assets, we consider our historical experience in the plans investment portfolio, historical market data and long-term historical relationships as well as a review of other objective indices including current market factors such as inflation and interest rates. Although plan investments are subject to short-term market volatility, we believe they are well diversified and closely managed. Our asset allocation as of December 31, 2007 consisted of 64% in equities, 31% in debt securities and 5% in real estate. Our asset allocation as of December 31, 2006 consisted of 65% of equities, 29% of debt securities, 5% of real estate and 1% in other investments. These allocations are consistent with the targeted long-term asset allocation for the plans. Based on various market factors, we have selected an expected rate of return on assets of 8.5% for 2008. We will continue to review our expected long-term rate of return on an annual basis and revise appropriately. The pension trust holds no YRC Worldwide securities.

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Discount Rate

The discount rate refers to the interest rate used to discount the estimated future benefit payments to their present value, also referred to as the benefit obligation. The discount rate allows us to estimate what it would cost to settle the pension obligations as of the measurement date, December 31, and impacts the following year s pension cost. We determine the discount rate by choosing a portfolio of high quality (those rated AA- or higher by Standard & Poors) non-callable bonds such that the coupons and maturities approximate our expected benefit payments. When developing the bond portfolio, there are some years when benefit payments are expected with no corresponding bond maturing. In these instances, we estimated the appropriate bond by interpolating yield characteristics between the bond maturing in the immediately preceding year and the bond maturing in the next available year. This analysis is reperformed on a bi-annual basis. For the years that we do not prepare a bond matching analysis, we utilize a spread against a specific index, the Citigroup Pension Liability Index, which is consistent with the actual spread observed in the year the analysis is performed.

Although the discount rate used requires little judgment, changes in the discount rate can significantly impact our pension cost. For example, a 50-basis-point decrease in our discount rate would increase annual pension expense by approximately $6.0 million and increase our underfunded pension liability reflected in shareholders equity by approximately $75.3 million, net of tax, assuming all other factors remain constant. The discount rate can fluctuate considerably over periods depending on overall economic conditions that impact long-term corporate bond yields. At December 31, 2007 and 2006, we used a discount rate of 6.61% and 6.12%, respectively.

Future Salary Increases

We make assumptions of future salary increases for plan participants based on general inflation and cost of living expectations. As pension benefits are based on participants earned wages, estimated levels of our future performance also factor into the calculation. We believe these increases require less judgment than other pension estimates but can have a significant impact on our future pension expense. Our 2007 assumed rate of future annual increases of 4.2% reflects the recent experience of our plans.

Gains and Losses

Gains and losses occur due to changes in the amount of either the projected benefit obligation or plan assets from experience different than assumed and from changes in assumptions. We recognize computed amortization of the unrecognized net gain or loss as a component of net pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds ten percent of the greater of the benefit obligation or the market-related value of plan assets. If amortization is required, it equals the amount of unrecognized net gain or loss that exceeds the ten percent corridor, amortized over the average remaining service period of active employees.

As of year end 2007, the pension plans have an unrecognized net loss of $19.5 million and a projected benefit obligation of $1,065.9 million. The average remaining service period is approximately 11 years.

Multi-Employer Pension Plans

Yellow Transportation, Roadway, New Penn, USF Holland and USF Reddaway contribute to approximately 20 separate multi-employer pension plans for employees that our collective bargaining agreements cover (approximately 70% of total YRC Worldwide employees). The pension plans provide defined benefits to retired participants.

We do not directly manage multi-employer plans. Trustees, half of whom the International Brotherhood of Teamsters (the Teamsters) appoints and half of whom various contributing employers appoint, manage the trusts covering these plans.

Our labor agreements with the Teamsters determine the amounts of our contributions to these plans. We recognize as net pension cost the contractually required contribution for the period and recognize as a liability any contributions due and unpaid.

In 2006, the Pension Protection Act became law and modified both the Internal Revenue Code (as amended, the Code) as it applies to multi-employer pension plans and the Employment Retirement Income Security Act of 1974 (as amended, ERISA). The Code and ERISA (in each case, as so modified) and related regulations establish minimum funding requirements for multi-employer pension plans. The funding status of these plans is determined by the following factors:

the number of participating active and retired employees

- the number of contributing employers
- the amount of each employer s contractual contribution requirements
- the investment returns of the plans
- plan administrative costs
- the number of employees and retirees participating in the plan who no longer have a contributing employer
- the discount rate used to determine the funding status
- the actuarial attributes of plan participants (such as age, estimated life and number of years until retirement)
- the benefits defined by the plan

If any of our multi-employer pension plans fails to:

- meet minimum funding requirements
- meet a required funding improvement or rehabilitation plan that the Pension Protection Act may require for certain of our underfunded plans
- obtain from the IRS certain changes to or a waiver of the requirements in how the applicable plan calculates its funding levels or
- reduce pension benefits to a level where the requirements are met

the Pension Protection Act could require us to make additional contributions to the multi-employer pension plan from five to ten percent of the contributions that our collective bargaining agreement requires until the collective bargaining agreement expires. Our new labor agreement, however, provides that if additional contributions are required, that money designated for certain other benefits would be reallocated to pay for the additional contributions.

If we fail to make our required contributions to a multi-employer plan under a funding improvement or rehabilitation plan or if the benchmarks that an applicable funding improvement plan provides are not met by the end of a prescribed period, the IRS could impose an excise tax on us with respect to the plan. These excise taxes are not contributed to the deficient funds, but rather are deposited in the United States general treasury funds.

Depending on the amount involved, a requirement to increase contributions beyond our contractually agreed rate or the imposition of an excise tax on us could have a material adverse impact on the financial results of YRC Worldwide.

Funded status of the Central States Plan

The plan administrators and trustees of multi-employer plans do not routinely provide us with current information regarding the status of each multi-employer pension plan s funding. This will change in the near future because the Pension Protection Act requires multi-employer pension plans to file more current and expanded, routine reports with the IRS, the Department of Labor and other interested parties for plan years beginning after January 1, 2008. At this time, the information that we are providing in this Form 10-K regarding the funding status, funded percentage or our portion of multi-employer plan theoretical withdrawal liabilities is based on publicly available information, which is often dated, and on the limited information available from plan administrators or plan trustees, which may not be independently validated.

The Pension Protection Act provides that certain plans with a funded percentage of less than 65% will be deemed to be in critical status. Plans in critical status must create a rehabilitation plan to exit critical status within periods that the Pension Protection Act prescribes. The Central States Southeast and Southwest Areas Pension Plan (the Central States Plan) provides retirement benefits to approximately 41% of our total employees. We believe that the funded percentage of the Central States Plan is approximately 70%. Under the Pension Protection Act, even if the funded percentage exceeds 65%, a plan may be in critical status if it has an accumulated funding deficiency for the current year or certain following years (in each case, excluding the impact of certain IRS permitted extensions of a plan s amortization of unfunded liabilities).

The IRS has granted the Central States Plan an extension on the amortization of its unfunded liabilities through 2014, subject to Central States Plan improving its funding levels during that period and certain other conditions. Assuming that the Central States Plan meets these conditions, it is expected to meet the minimum funding requirements, as the IRS has modified them, through at least 2014. Even so, we understand that the Central States Plan believes it will be in critical status under the accumulated funding deficiency test. As a result, we understand that the Central States Plan believes that it will adopt a rehabilitation plan within the time periods that the Pension Protection Act requires, which could be prior to the effective date of our new labor agreement with the Teamsters. Our current labor agreement expires on March 31, 2008 and our new labor agreement commences on April 1, 2008. We understand that the Central States Plan believes that the funding levels that the IRS set forth in its amortization extension could form the basis of the rehabilitation plan.

Contingent Withdrawal Liabilities

We believe that our portion of the contingent liability in the case of a full withdrawal or termination from all of the multi-employer pension plans to which we contribute would be an estimated $4 billion on a pre-tax basis. If the Company were subject to withdrawal liability with respect to a plan, ERISA provides that a withdrawing employer can pay the obligation over time determined by the employer s contribution rate prior to withdrawal, which, in some cases, could be up to 20 years. Even so, our applicable subsidiaries have no current intention of taking any action that would subject us to withdrawal obligations.

Property and Equipment and Definite Life Intangibles

Impairment Testing

We review property and equipment and definite life intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We evaluate recoverability of assets to be held and used by comparing the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

We believe that the accounting estimate related to asset impairment is a critical accounting estimate because: (1) it requires our management to make assumptions about future revenues over the life of the asset, and (2) the impact that recognizing an impairment would have on our financial position, as well as our results of operations, could be material. Management s assumptions about future revenues require significant judgment because actual revenues have fluctuated in the past and may continue to do so.

In estimating future revenues, we use our internal business forecasts. We develop our forecasts based on recent revenue data for existing services and other industry and economic factors.

Depreciable Lives of Assets

We review the appropriateness of depreciable lives for each category of property and equipment. These studies utilize models, which take into account actual usage, physical wear and tear, and replacement history to calculate remaining life of our asset base. We also make assumptions regarding future conditions in determining potential salvage values. These assumptions impact the amount of depreciation expense recognized in the period and any gain or loss once the asset is disposed.

In 2006, we revised the estimated useful lives and salvage values of certain classes of property and equipment to more appropriately reflect how the assets are expected to be used over time. Effective July 1, 2006, we increased revenue equipment lives to a range of ten to twenty years from three to fourteen years and modified certain salvage values. If we had not changed the estimated useful lives and salvage values of such property and equipment, additional depreciation expense of approximately $54.3 million and $26.3 million would have been recorded during the years ended December 31, 2007 and 2006, respectively. Accordingly, the changes in estimates resulted in an increase in income from continuing operations of approximately $54.3 million and $26.3 million (a $34.3 million and $16.0 million increase in net income) for the years ended December 31, 2007 and 2006, respectively. The change in estimate also increased diluted earnings per share by $0.60 and $0.27 for the years ended December 31, 2007 and 2006, respectively.

Goodwill and Indefinite Life Intangibles

Goodwill and indefinite life intangibles are assessed at least annually for impairment, or more frequently if indicators of impairment exist. Goodwill is tested by comparing the aggregate carrying amount of the reporting unit (identified as our reportable segments) to fair value. The fair value is determined primarily based on valuation studies which utilize a discounted cash flow methodology (an income approach). Indefinite life intangibles, primarily tradenames, are tested by comparing the carrying amount to fair value generally using the relief from royalty method (an income approach).

We believe that the accounting estimate related to goodwill and indefinite life intangibles is a critical accounting estimate because (1) it requires our management to make assumptions about fair values, and (2) the impact of recognizing an impairment could be material to our financial position, as well as our results of operations. Management s assumptions about fair values require considerable judgment because changes in broad economic factors and industry factors can result in variable and volatile fair values. Assumptions with respect to rates used to discount cash flows, a key input, are dependent upon interest rates and the cost of capital at a point in time.

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Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007) (SFAS 141R), Business Combinations and SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51 . SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective for us beginning in the first quarter of 2009. Early adoption is not permitted. We are currently evaluating the impact that SFAS 141R and SFAS 160 will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities . Under SFAS 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earning. SFAS 159 is effective for us beginning in the first quarter of 2008 and will not have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for 2008, we will adopt SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. The partial adoption of SFAS 157 will not have a material impact on our consolidated financial position, results of operations or cash flows.

Outlook

In general, economists expect modest growth in capital spending during 2008. U.S. economic growth is projected to slow in the first half of the year, but accelerate in the second half. The median forecast anticipates gross domestic product (GDP) to grow but at a below-trend pace of 2.1 to 2.5 percent in 2008 as the economy works through the housing sector contraction and the effect of credit market turbulence. Growth in business capital spending, along with consumer spending, is expected to be slightly lower than 2007. Business spending is expected to continue to benefit from generally solid corporate balance sheets and cash balances accumulated during the recent period of strong corporate profits, but growth is expected to be well below the rates seen in recent years. The price of oil is expected to decline but remain elevated by historical standards. We expect competitive LTL pricing trends to continue during the upcoming year.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk
Market Risk Position

We have exposure to a variety of market risks, including the effects of interest rates, foreign exchange rates and fuel prices.

Risk from Interest Rates

To provide adequate funding through seasonal business cycles and minimize overall borrowing costs, we utilize both fixed rate and variable rate financial instruments with varying maturities. At December 31, 2007, we had approximately 73% of our outstanding debt at fixed rates. If interest rates for our variable rate long-term debt had averaged 10% more during the year, our interest expense would have increased, and income before taxes would have decreased by $2.4 million for the year ended December 31, 2007.

The table below provides information regarding our interest rate risk related to fixed-rate debt as of December 31, 2007. Principal cash flows are by contractual maturity for other than our contingent convertible senior notes. These notes are instead presented based on the earliest possible redemption date defined as the first date on which the note holders have the option to require us to purchase their notes (the put date). For the $250 million notes the stated maturity is August 2023 with an initial put date of August 2010 and for the $150 million notes the stated maturity is November 2023 with an initial put date of November 2012. The fair values of our Roadway senior notes, USF senior notes and contingent convertible senior notes have been calculated based on the quoted market prices at December 31, 2007. The market price for the contingent convertible senior notes reflects the combination of debt and equity components of the convertible instrument.

(in millions)	2008	2009	2010	2011	2012	Thereafter	Total	Fair value
Fixed-rate debt	$ 227.5	$ 101.0	$ 406.0	$	$ 150.0	$	$ 884.5	$ 856.5
Average interest rate	8.22%	6.5%	6.31%		3.38%			

Foreign Exchange Rates

Revenue, operating expenses, assets and liabilities of our Canadian, Mexican, Asian, South American and United Kingdom subsidiaries are denominated in local currencies, thereby creating exposure to fluctuations in exchange rates. The risks related to foreign currency exchange rates are not material to our consolidated financial position or results of operations. During 2007, we entered into a foreign currency hedge that matured December 31, 2007. The purpose of this instrument was to effectively hedge our exposure to foreign currency fluctuations on certain intercompany debt with GPS Logistics (EU) Limited, a wholly owned subsidiary. We have continued to hedge this exposure in 2008.

Fuel Price Volatility

National Transportation and Regional Transportation currently have effective fuel surcharge programs in place. As discussed previously, these programs are well established within the industry and customer acceptance of fuel surcharges remains high. Since the amount of fuel surcharge is based on average, national diesel fuel prices and is reset weekly, our exposure to fuel price volatility is significantly reduced.

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Item 8. Financial Statements and Supplementary Data
CONSOLIDATED BALANCE SHEETS

YRC Worldwide Inc. and Subsidiaries

(in thousands except per share data)	December 31, 2007	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 58,233	$ 76,391
Accounts receivable, less allowances of $34,933 and $35,742	1,073,915	1,190,818
Fuel and operating supplies	29,051	26,600
Deferred income taxes, net	41,019	34,261
Prepaid expenses and other	175,316	162,543
Total current assets	1,377,534	1,490,613
Property and Equipment:		
Land	449,696	468,119
Structures	1,127,189	1,103,885
Revenue equipment	1,919,443	1,742,897
Technology equipment and software	327,629	283,193
Other	259,834	243,563
	4,083,791	3,841,657
Less accumulated depreciation	(1,703,318)	(1,571,811)
Net property and equipment	2,380,473	2,269,846
Goodwill	700,659	1,326,583
Intangibles, net	533,327	691,417
Other assets	70,630	73,300
Total assets	$ 5,062,623	$ 5,851,759
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 387,740	$ 397,586
Wages, vacations and employees benefits	426,119	413,759
Claims and insurance accruals	167,875	189,657
Other current and accrued liabilities	201,850	134,467
Asset backed securitization borrowings	180,000	225,000
Current maturities of long-term debt	231,955	
Total current liabilities	1,595,539	1,360,469
Other Liabilities:		
Long-term debt, less current portion	822,048	1,058,496
Deferred income taxes, net	521,615	508,715
Pension and postretirement	180,166	349,723
Claims and other liabilities	330,951	381,807
Commitments and Contingencies		
Shareholders Equity:		

Common stock, $1 par value per share authorized 120,000 shares, issued 61,514 and 60,876 shares	61,514	60,876
Preferred stock, $1 par value per share authorized 5,000 shares, none issued		
Capital surplus	1,211,956	1,180,578
Retained earnings	471,119	1,115,246
Accumulated other comprehensive income (loss)	12,329	(54,534)
Treasury stock, at cost (4,802 and 3,679 shares)	(144,614)	(109,617)
Total shareholders equity	1,612,304	2,192,549
Total liabilities and shareholders equity	$ 5,062,623	$ 5,851,759

The notes to consolidated financial statements are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED OPERATIONS

YRC Worldwide Inc. and Subsidiaries

For the years ended December 31

(in thousands except per share data)	2007	2006	2005
Operating Revenue	$ 9,621,316	$ 9,918,690	$ 8,741,557
Operating Expenses:			
Salaries, wages and employees benefits	5,741,078	5,735,720	5,111,113
Operating expenses and supplies	1,864,957	1,819,030	1,438,426
Purchased transportation	1,089,041	1,090,504	991,157
Depreciation and amortization	255,603	274,184	250,562
Other operating expenses	437,323	435,876	406,348
Gains on property disposals, net	(5,820)	(8,360)	(5,388)
Reorganization and settlements	22,385	26,302	13,029
Impairment charges	781,875		
Total operating expenses	10,186,442	9,373,256	8,205,247
Operating income (loss)	(565,126)	545,434	536,310
Nonoperating (Income) Expenses:			
Interest expense	88,760	87,760	63,371
Interest income	(4,372)	(3,127)	(3,506)
Other	2,203	4,845	4,182
Nonoperating expenses, net	86,591	89,478	64,047
Income (Loss) Before Income Taxes	(651,717)	455,956	472,263
Income Tax Provision (Benefit)	(13,336)	179,324	184,133
Net Income (Loss)	$ (638,381)	$ 276,632	$ 288,130
Weighted Average Common Shares Outstanding - Basic	57,154	57,361	54,358
Weighted Average Common Shares Outstanding - Diluted	57,154	58,339	56,905
Basic Earnings (Loss) Per Share	$ (11.17)	$ 4.82	$ 5.30
Diluted Earnings (Loss) Per Share	$ (11.17)	$ 4.74	$ 5.07

The notes to consolidated financial statements are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED CASH FLOWS

YRC Worldwide Inc. and Subsidiaries

For the years ended December 31

(in thousands except per share data)	2007	2006	2005
Operating Activities:			
Net income (loss)	$ (638,381)	$ 276,632	$ 288,130
Noncash items included in net income (loss):			
Depreciation and amortization	255,603	274,184	250,562
Impairment charges	781,875		
Deferred income tax provision, net	8,533	161,223	52,600
Loss on sale of subsidiary		2,843	
Gains on property disposals, net	(7,547)	(8,360)	(5,388)
Other noncash items	9,925	9,315	7,093
Changes in assets and liabilities, net:			
Accounts receivable	107,497	(26,292)	(68,395)
Accounts payable	(9,320)	(9,618)	(13,185)
Other operating assets	(3,904)	(59,514)	(7,882)
Other operating liabilities	(111,683)	(88,109)	(5,858)
Net cash provided by operating activities	392,598	532,304	497,677
Investing Activities:			
Acquisition of property and equipment	(393,763)	(377,687)	(304,718)
Proceeds from disposal of property and equipment	55,339	74,630	48,283
Acquisition of companies		(25,627)	(753,892)
Investment in affiliate			(46,043)
Other	(2,663)	(287)	12,075
Net cash used in investing activities	(341,087)	(328,971)	(1,044,295)
Financing Activities:			
Asset backed securitization borrowings, net	(45,000)	(149,970)	374,970
Issuance of long-term debt	155,096		190,561
Debt issuance costs	(1,298)		(4,245)
Repayment of long-term debt	(150,000)	(45,022)	
Treasury stock purchases	(34,997)	(19,997)	(49,999)
Proceeds from exercise of stock options	6,530	5,686	11,203
Net cash (used in) provided by financing activities	(69,669)	(209,303)	522,490
Net Decrease In Cash and Cash Equivalents	(18,158)	(5,970)	(24,128)
Cash and Cash Equivalents, Beginning of Year	76,391	82,361	106,489
Cash and Cash Equivalents, End of Year	$ 58,233	$ 76,391	$ 82,361
Supplemental Cash Flow Information:			
Income taxes paid (refund), net	$ (48,132)	$ 109,500	$ 100,354
Interest paid	84,076	90,072	62,145
Issuance of common stock for USF acquisition			448,125
Employer 401(k) contributions settled in common stock	9,548	7,383	8,332

The notes to consolidated financial statements are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED SHAREHOLDERS EQUITY

YRC Worldwide Inc. and Subsidiaries

For the years ended December 31

(in thousands except per share data)	2007	2006	2005
Common Stock			
Beginning balance	$ 60,876	$ 60,450	$ 51,303
Exercise of stock options	221	185	368
Issuance of equity awards, net	119	64	23
Issuance of common stock for acquisition			9,020
Employer contribution to 401(k) plan	298	177	138
Other			(402)
Ending balance	61,514	60,876	60,450
Capital Surplus			
Beginning balance	1,180,578	1,154,654	684,025
Exercise of stock options, including tax benefits	6,309	5,501	10,836
Share-based compensation	14,748	12,265	10,890
Issuance of common stock for acquisition			439,105
Employer contribution to 401(k) plan	9,250	7,206	7,767
Other, net	1,071	952	2,031
Ending balance	1,211,956	1,180,578	1,154,654
Retained Earnings			
Beginning balance	1,115,246	838,614	550,484
Cumulative effect adoption of FIN 48, Accounting for Uncertainty in Income Taxes	(5,746)	-	-
Net income (loss)	(638,381)	276,632	288,130
Ending balance	471,119	1,115,246	838,614
Accumulated Other Comprehensive Income (Loss)			
Beginning balance	(54,534)	(27,610)	(33,159)
Adjustment to initially apply SFAS No. 158, net of tax		(56,505)	-
Pension, net of tax:			
Net pension gains	45,345		
Reclassification of net losses to net income	5,452		
Minimum pension liability adjustment		28,000	3,371
Foreign currency translation adjustments	16,066	1,581	2,178
Ending balance	12,329	(54,534)	(27,610)
Treasury Stock, At Cost			
Beginning balance	(109,617)	(89,620)	(38,462)
Treasury stock purchases	(34,997)	(19,997)	(49,999)
Employer contribution to 401(k) plan			427
Forfeited equity awards			(1,586)

Ending balance	(144,614)	(109,617)	(89,620)
Total Shareholders Equity	$ 1,612,304	$ 2,192,549	$ 1,936,488

The notes to consolidated financial statements are an integral part of these statements.

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STATEMENTS OF COMPREHENSIVE INCOME

YRC Worldwide Inc. and Subsidiaries

For the years ended December 31

(in thousands except per share data)	2007	2006	2005
Net income (loss)	$ (638,381)	$ 276,632	$ 288,130
Other comprehensive income, net of tax:			
Minimum pension liability adjustment		28,000	3,371
Net prior service cost	980		
Net actuarial gains	49,817		
Foreign currency translation adjustments	16,066	1,581	2,178
Other comprehensive income	66,863	29,581	5,549
Comprehensive income (loss)	$ (571,518)	$ 306,213	$ 293,679

The notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

YRC Worldwide Inc. and Subsidiaries

Description of Business

YRC Worldwide Inc. (also referred to as YRC Worldwide , the Company , we or our), one of the largest transportation service providers in the world, is a holding company that through wholly owned operating subsidiaries offers its customers a wide range of transportation services. The Company adopted the name YRC Worldwide in January 2006 to reflect the fact that its services have expanded to encompass logistics as well as global, national and regional transportation. Our operating subsidiaries include the following:

YRC National Transportation (National Transportation) is a holding company for our transportation service providers focused on business opportunities in regional, national and international services. National Transportation is comprised of Yellow Transportation and Roadway. These companies each provide for the movement of industrial, commercial and retail goods, primarily through regionalized and centralized management and customer facing organizations. National Transportation also includes Reimer Express Lines, a Roadway subsidiary located in Canada that specializes in shipments into, across and out of Canada. Approximately 37% of National Transportation shipments are completed in two days or less. In addition to the United States (U.S.) and Canada, National Transportation also serves parts of Mexico, Puerto Rico and Guam.

YRC Regional Transportation (Regional Transportation) is a holding company for our transportation service providers focused on business opportunities in the regional and next-day delivery markets. Regional Transportation is comprised of New Penn Motor Express (New Penn), USF Holland and USF Reddaway. These companies each provide regional, next-day ground services in their respective regions through a network of facilities located across the United States; Quebec, Canada; Mexico and Puerto Rico. USF Glen Moore, a provider of truckload services throughout the U.S., is also a subsidiary of Regional Transportation. Approximately 90% of Regional Transportation less-than-truckload shipments are completed in two days or less. In 2006, Regional Transportation also included USF Bestway. In February 2007, the majority of USF Bestway s operations were consolidated into USF Reddaway.

YRC Logistics (formerly Meridian IQ) plans and coordinates the movement of goods worldwide to provide customers a single source for logistics management solutions. YRC Logistics delivers a wide range of global logistics management services, with the ability to provide customers improved return-on-investment results through flexible, fast and easy-to-implement logistics services and technology management solutions.

1. Principles of Consolidation and Summary of Accounting Policies

The accompanying consolidated financial statements include the accounts of YRC Worldwide and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. We report on a calendar year basis. The quarters of the Regional Transportation companies (with the exception of New Penn) consist of thirteen weeks that end on a Saturday either before or after the end of March, June and September, whereas all other operating segment quarters end on the

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natural calendar quarter end. Investments in non-majority owned affiliates where the entity is either not a variable interest entity or YRC Worldwide is not the primary beneficiary are accounted for on the equity method. Management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Actual results could differ from those estimates.

Accounting policies refer to specific accounting principles and the methods of applying those principles to fairly present our financial position and results of operations in accordance with generally accepted accounting principles. The policies discussed below include those that management has determined to be the most appropriate in preparing our financial statements and are not otherwise discussed in a separate note.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid investments purchased with maturities of three months or less.

Concentration of Credit Risks and Other

We sell services and extend credit based on an evaluation of the customer s financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer s financial condition. We monitor our exposure for credit losses and maintain allowances for anticipated losses.

At December 31, 2007, after giving consideration to the February 2008 contract ratification, approximately 70% of our labor force is subject to collective bargaining agreements, which predominantly expire in 2013.

Revenue Recognition

For shipments in transit, National Transportation and Regional Transportation record revenue based on the percentage of service completed as of the period end and accrue delivery costs as incurred. In addition, National Transportation and Regional Transportation recognize revenue on a gross basis because the entities are the primary obligors even when they use other transportation service providers who act on their behalf. National Transportation and Regional Transportation remain responsible to their customers for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. We assign pricing to bills of lading at the time of shipment based primarily on the weight, general classification of the product, the shipping destination and individual customer discounts. This process is referred to as rating. At various points throughout our process, incorrect ratings could be identified based on many factors, including weight verifications or updated customer discounts. Although the majority of rerating occurs in the same month as the original rating, a portion occurs during the following periods. We accrue a reserve for rerating based on historical trends.

YRC Logistics recognizes revenue upon the completion of services. In certain transactions where YRC Logistics acts as an agent, revenue is recorded on a net basis. Net revenue represents revenue charged to customers less third party transportation costs. Where YRC Logistics acts as principal, it records revenue from these transactions on a gross basis, without deducting transportation costs. Management believes these policies most accurately reflect revenue as earned.

Foreign Currency

Our functional currency is the U.S. dollar, whereas, our foreign operations utilize the local currency as their functional currency. Accordingly, for purposes of translating foreign subsidiary financial statements to the U.S. dollar reporting currency, assets and liabilities of our foreign operations are translated at the fiscal year end exchange rates and income and expenses are translated at the average exchange rates for the fiscal year. Foreign currency gains and losses resulting from foreign currency transactions resulted in a $5.4 million loss during 2007 and is included in other nonoperating expense in the accompanying consolidated statement of operations. The amounts for 2006 and 2005 were not material.

Financial and Derivative Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximates their fair value due to the short-term nature of these instruments.

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SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended, requires companies to recognize all derivative financial instruments as either assets or liabilities at their fair value. During 2007, we entered into a forward contract to hedge our exposure to foreign currency risk related to an intercompany note between a U.S. subsidiary and a United Kingdom subsidiary. This contract expired December 31, 2007 and did not have a material impact to our operations. We have continued to hedge this exposure in 2008.

Claims and Insurance Accruals

Claims and insurance accruals, both current and long-term, reflect the estimated cost of claims for workers compensation, cargo loss and damage, and property damage and liability that insurance does not cover. We base reserves for workers compensation and property damage and liability claims primarily upon actuarial analyses that independent actuaries prepare. These reserves are discounted to present value using a risk-free rate at the date of occurrence. The risk-free rate is the U.S. Treasury rate for maturities that match the expected payout of such claims. The process of determining reserve requirements utilizes historical trends and involves an evaluation of accident frequency and severity, claims management, changes in health care costs and certain future administrative costs. The effect of future inflation for costs is implicitly considered in the actuarial analyses. Adjustments to previously established reserves are included in operating results in the year of adjustment. As of December 31, 2007 and 2006, we had $478.3 million and $504.4 million, respectively, accrued for claims and insurance.

During the year ended December 31, 2006, we received $4.0 million of business-interruption insurance recoveries related to the August 2005 hurricane Katrina. This amount has been classified as revenue in the accompanying consolidated statement of operations for our National Transportation segment.

Stock-Based Compensation

We have various stock-based employee compensation plans, which are described more fully in the Stock Compensation Plans note. We have a long-term incentive and equity award plan, which is shareholder approved, that authorized the issuance of up to a total of 3.43 million shares and provides for awards to be made in cash and performance share units at the discretion of the Board of Directors. Though not widely used, this plan also provides for the award of options. Prior to January 1, 2006, we accounted for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, as amended (APB 25), and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation.* No stock-based employee compensation cost relative to options was recognized in the Statement of Operations for the year ended December 31, 2005, as all options granted under our plan had an exercise price equal to the market value of the underlying common stock on the date of grant. During the year ended December 31, 2005, we recognized expense for performance share units (nonvested shares) on a straight-line basis over the respective vesting period and performance period, if applicable, based on the grant date fair value. Effective, January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, in addition to the compensation costs related to nonvested shares, compensation cost recognized during the years ended December 31, 2007 and 2006 also includes: (a) compensation cost for all share-based payments (*i.e.* options) granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, if any, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated.

As a result of adopting SFAS No. 123(R) on January 1, 2006, our income before income taxes is $1.3 million lower for the year ended December 31, 2006, and net income is $0.8 million lower for the year ended December 31, 2006, than if we had continued to account for share-based compensation under APB 25. The impact of the adoption of SFAS No. 123(R) on basic and diluted earnings per share for the year ended December 31, 2006 is $0.01 per share. The adoption of SFAS No. 123(R) was not material to our 2007 operating results.

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Option Value Information

We estimated the pro forma calculations in the table below using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005
Dividend yield	%
Expected volatility	34.0%
Risk-free interest rate	4.4%
Expected option life (years)	2.7
Fair value per option	$ 11.62

Pro forma information is not presented for 2007 or 2006 as we adopted SFAS No. 123(R) effective January 1, 2006, and would have recorded expense for any option awards. No such options were awarded during 2007 or 2006.

Pro Forma Information

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123 to options granted under our long-term incentive and equity award plan. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes-Merton option-pricing formula and amortized to expense over the options vesting periods.

(in millions except per share data)	2005
Net income as reported	$ 288.1
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1.0)
Pro forma net income	$ 287.1
Basic earnings per share	
Net income as reported	$ 5.30
Net income pro forma	5.28
Diluted earnings per share:	
Net income as reported	$ 5.07
Net income pro forma	5.05

Property and Equipment

We carry property and equipment at cost less accumulated depreciation. We compute depreciation using the straight-line method based on the following service lives:

	Years
Structures	10 30
Revenue equipment	10 20
Technology equipment and software	3 7
Other	3 10

We charge maintenance and repairs to expense as incurred, and capitalize replacements and improvements when these costs extend the useful life of the asset. We utilize certain terminals and equipment under operating leases. Leasehold improvements are capitalized and amortized over the original lease term.

Our investment in technology equipment and software consists primarily of customer service and freight management equipment and related software. We capitalize certain costs associated with developing or obtaining internal-use software. Capitalizable costs include external direct costs of materials and services utilized in developing or obtaining the software, payroll and payroll-related costs for employees directly associated with the project. For the years ended December 31, 2007, 2006 and 2005, we capitalized $26.8 million, $14.7 million, and $8.2 million, respectively, which were primarily payroll and payroll-related costs.

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In 2006, we revised the estimated useful lives and salvage values of certain classes of property and equipment to more appropriately reflect how the assets are expected to be used over time. Effective July 1, 2006, we increased revenue equipment lives to a range of ten to twenty years from three to fourteen years and modified certain salvage values. If we had not changed the estimated useful lives and salvage values of such property and equipment, additional depreciation expense of approximately \$54.3 million and \$26.3 million would have been recorded during the years ended December 31, 2007 and 2006, respectively. Accordingly, the changes in estimates resulted in an increase in income from continuing operations of approximately \$54.3 million and \$26.3 million (a \$34.3 million and \$16.0 million increase in net income) for the years ended December 31, 2007 and 2006, respectively. The change in estimate also increased diluted earnings per share by \$0.60 and \$0.27 for the years ended December 31, 2007 and 2006, respectively.

For the years ended December 31, 2007, 2006, and 2005, depreciation expense was \$237.3 million, \$251.7 million, and \$232.1 million, respectively.

Impairment of Long-Lived Assets

If facts and circumstances indicate that the carrying amount of identifiable amortizable intangibles and property, plant and equipment may be impaired, we would perform an evaluation of recoverability in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. If an evaluation were required, we would compare the estimated future undiscounted cash flows associated with the asset to the asset s carrying amount to determine if a reduction to the carrying amount is required. The carrying amount of an impaired asset would be reduced to fair value.

Asset Retirement Obligations

We record estimated liabilities for the cost to remove underground storage tanks and to return leased property to its original condition at the end of a lease term. Revisions to these liabilities for such costs may occur due to changes in the estimates for fuel tank removal costs and real property lease restoration costs, or changes in regulations or agreements affecting these obligations. Our accrual also includes amounts for restoration of U.S. federal Superfund sites. When we have been identified as a potentially responsible party in a Superfund site, we accrue our share of the estimated remediation costs of the site based on the ratio of the estimated volume of waste contributed to the site by us to the total volume of waste at the site. At December 31, 2007 and 2006, our estimated asset retirement obligations totaled \$7.6 million and \$7.2 million, respectively. These amounts are included in Other current and accrued liabilities in the accompanying consolidated balance sheet.

Assets Held for Sale

When we plan to dispose of property by sale, the asset is carried in the financial statements at the lower of the carrying amount or estimated fair value, less cost to sell, and is reclassified to assets held for sale. Additionally, after such reclassification, there is no further depreciation taken on the asset. In order for an asset to be classified as held for sale, management must approve and commit to a formal plan, the sale should be anticipated during the ensuing year and the asset must be actively marketed, be available for immediate sale, and meet certain other specified criteria. At December 31, 2007 and 2006, the net book value of assets held for sale was approximately \$28 million and \$43 million, respectively. This amount is included in Property and equipment in the accompanying consolidated balance sheet.

Reorganization and Settlements

Reorganization and settlements in 2007 included severance and acceleration of stock-based compensation related to certain terminated executives of \$10.7 million, other USF Bestway closure related charges of \$4.0 million and costs associated with the YRC Logistics name change of \$1.4 million. Reorganization and settlements in 2006 included \$13.3 million due to the unsuccessful abatement of a multi-employer pension plan withdrawal liability related to USF Red Star. \$1.8 million related to a reduction in workforce and \$2.8 million related to the loss on the sale of Meridian IQ China Co., Ltd. Reorganization and settlements in 2005 included \$4.0 million in executive severance, \$6.4 million in operational shutdown costs, and \$2.6 million in restructuring costs related primarily to the acquisition of USF Corporation (USF).

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Reclassifications

Certain amounts within the prior year have been reclassified to conform with the current year presentation. We reclassed certain deferred tax amounts related to our captive insurance company to reflect the amounts on a net basis versus a gross basis. This change in presentation results in a decrease to deferred income taxes in both current assets and other liabilities of $100.5 million at December 31, 2006.

2. Acquisitions

In accordance with SFAS No. 141, Business Combinations, we allocate the purchase price of our acquisitions to the tangible and intangible assets and liabilities of the acquired entity based on their fair values. We record the excess purchase price over the fair values as goodwill. The fair value assigned to intangible assets acquired is based on valuations that independent third party appraisal firms prepared using estimates and assumptions provided by management.

The results of the entities acquired as discussed below have been included in our financial statements since the respective date of acquisition.

USF Corporation

On May 24, 2005, YRC Worldwide completed the acquisition of USF, headquartered in Chicago, IL, through the merger (the Merger) of a wholly owned subsidiary of YRC Worldwide with and into USF, resulting in USF becoming a wholly owned subsidiary of YRC Worldwide. USF, a leader in the transportation industry, specialized in delivering comprehensive supply chain management solutions, including high-value next-day, regional and national LTL transportation, third-party logistics, and premium regional and national truckload transportation. The company serves the North American market, including the United States, Canada and Mexico, as well as the U.S. territories of Puerto Rico and Guam under the following brands: USF Holland, USF Reddaway, USF Glen Moore and USF Logistics (now part of YRC Logistics). The acquisition further advanced YRC Worldwide as one of the leading transportation services companies in the world. The combined entity offers customers a broad range of transportation services including next day, inter-regional, national and international capabilities.

Pursuant to the Merger, each share of common stock of USF was converted into the right to receive $29.25 in cash and 0.31584 shares of YRC Worldwide common stock, resulting in consideration of approximately $835.4 million in cash and 9 million shares for a total purchase price of $1.3 billion. The purchase price also included approximately $14.6 million for investment banking, legal and accounting fees that YRC Worldwide incurred to consummate the acquisition, resulting in total cash consideration of $743.1 million, net of cash acquired. The cash portion of the merger consideration was financed with a combination of proceeds from the issuance of floating rate notes, borrowings under our ABS facility, and cash on hand.

The final allocation of the total consideration for the USF acquisition is as follows (in millions):

Current assets, net of cash acquired of $106.9 million	$ 349.5
Property and equipment	751.1
Goodwill	695.5
Intangible assets	253.0
Other assets	19.1
Current liabilities	(410.0)
Long-term debt ($250 million principal)	(272.2)
Other liabilities	(194.8)
Net assets acquired	$ 1,191.2

2,421,000

Total

$57,065,679

$120,593,045

$3,790,057

$181,448,781

* Ultratech Cement Limited with a fair value of $3,912,524, Maroc Telecom with a fair value of $5,327,458, and Safaricom Limited with a fair value of $4,269,063 all transferred from Level 2 to Level 1 during the six months ended April 30, 2012. For the six months ended April 30, 2012 there have been no significant changes to the fair valuation methodologies.

The following is a reconciliation of investments in which unobservable inputs (Level 3) were used in determining value:

Investments, at value	Balance as of 10/31/2011	Accrued discounts/ premiums	Realized gain/(loss)	Change in unrealized appreciation/ (depreciation)	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Balance as of 04/30/2012
Venture Capital	$4,337,409	$	$	$(55,050)	$33,750	$(526,052)	$	$	$3,790,057
Total	**$4,337,409**	**$**	**$**	**$(55,050)**	**$33,750**	**$(526,052)**	**$**	**$**	**$3,790,057**

Change in unrealized appreciation/depreciation relating to investments still held at April 30, 2012 is $(55,050).

(b) Short-Term Investment:

The Fund sweeps available cash into a short-term time deposit available through Brown Brothers Harriman & Co. (BBH & Co.), the Fund s custodian. The short-term time deposit is a variable rate account classified as a short-term investment.

(c) Foreign Currency Transactions:

Foreign currency amounts are translated into U.S. Dollars on the following basis:

(I) market value of investment securities, other assets and liabilities at the valuation date rate of exchange; and

(II) purchases and sales of investment securities, income and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions.

The Fund does not isolate that portion of gains and losses on investments in equity securities which is due to changes in the foreign exchange rates from that which is due to changes in market prices of equity securities. Accordingly, realized and unrealized foreign currency gains and losses with respect to such securities are included in the reported net realized and unrealized gains and losses on investment transactions balances.

The Fund reports certain foreign currency related transactions and foreign taxes withheld on security transactions as components of realized gains for financial reporting purposes, whereas such foreign

currency related transactions are treated as ordinary income for U.S. federal income tax purposes.

Net unrealized currency gains or losses from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of net unrealized appreciation/depreciation in value of investments, and translation of other assets and liabilities denominated in foreign currencies.

Net realized foreign exchange gains or losses represent foreign exchange gains and losses from transactions in foreign currencies and forward foreign currency contracts, exchange gains or losses realized between the trade date and settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Fund s books and the U.S. Dollar equivalent of the amounts actually received.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the U.S. Dollar. Generally, when the U.S. Dollar rises in value against a foreign currency, the Fund s investments denominated in that currency will lose value because its currency is worth fewer U.S. Dollars; the opposite effect occurs if the U.S. Dollar falls in relative value.

Notes to Financial Statements (unaudited) (continued)

April 30, 2012

(d) Security Transactions and Investment Income:

Securities transactions are recorded on the trade date. Realized and unrealized gains/(losses) from security and currency transactions are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date except for certain dividends on foreign securities, which are recorded as soon as the Fund is informed after the ex-dividend date. Interest income is recorded on an accrual basis. Expenses are recorded on an accrual basis.

(e) Distributions:

On an annual basis, the Fund intends to distribute its net realized capital gains, if any, by way of a final distribution to be declared during the calendar quarter ending December 31. Dividends and distributions to shareholders are recorded on the ex-dividend date.

Dividends and distributions to shareholders are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments for foreign currencies.

(f) Federal Income Taxes:

The Fund intends to continue to qualify as a regulated investment company by complying with the provisions available to certain investment companies, as defined in Subchapter M of the Internal Revenue Code, and to make distributions of net investment income and net realized capital gains sufficient to relieve the Fund from all, or substantially all, federal income taxes. Therefore, no federal income tax provision is required.

The Funds recognize the tax benefits of uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. Management of the Fund has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. Since tax authorities can examine previously filed tax returns, the Fund s U.S. federal tax returns for each of the four fiscal years up to the period ended October 31, 2011, are subject to such review.

(g) Partnership Accounting Policy:

The Fund records its pro-rata share of the income/(loss) and capital gains/(losses) allocated from the underlying partnerships and adjusts the cost of the underlying partnerships accordingly. These amounts are included in the Fund s Statement of Operations.

3. Agreements and Transactions with Affiliates

(a) Investment Adviser:

Aberdeen Asset Managers Limited (AAML) serves as the Fund s investment adviser with respect to all investments. AAML is a direct wholly-owned subsidiary of Aberdeen Asset Management PLC. On March 1, 2012, the previous investment adviser, Aberdeen Asset Management Investment Services Limited (AAMISL), merged into AAML, which assumed the Investment advisory responsibility for the Fund. There was no change to the portfolio management team or the level or nature of the services provided to the Fund as a result of the merger and the same resources available to AAMISL for the management and compliance oversight of the Fund are available to AAML. AAML receives as compensation for its advisory services from the Fund, an annual fee, calculated weekly and paid quarterly, equal to 1.25% of the first $100 million of the Fund s average weekly market value or net assets (whichever is lower), 1.125% of the next $100 million and 1.00% of amounts in excess of $200 million. AAML has agreed to waive a portion of its advisory fee. For the six months ended April 30, 2012, AAML earned $916,033 for advisory services, of which AAML waived $65,575. Amounts shown as paid to AAML include amounts paid to AAMISL prior to March 1, 2012.

(b) Fund Administration:

BBH & Co. is the Administrator for the Fund and certain other funds advised by AAML and its affiliates (collectively the Funds). The Funds pay BBH & Co. a monthly administration and fund accounting service fee at an annual rate of 0.02% of the Fund s aggregate assets up to $250 million, 0.015% for the next $250 million and 0.01% in excess of $500 million.

Each Fund pays its pro rata portion of the fee based on its level of assets. For the six months ended April 30, 2012, BBH & Co. earned $14,918 from the Fund for administrative and fund accounting services.

(c) Investor Relations:

Under the terms of an Investor Relations Services Agreement, Aberdeen Asset Management Inc. (AAMI), an affiliate of AAML, provides investor relations services to the Fund and certain other Funds. For the six months ended April 30, 2012, the Fund incurred investor relations fees of approximately $32,961 for investor relations services. Investor relations fees and expenses in the Statement of Operations include certain out-of-pocket expenses.

(d) Director s Purchase Plan:

Fifty percent (50%) of the annual retainer of the Independent Directors is invested in Fund shares and, at the option of each Independent Director, 100% of the annual retainer can be invested in shares of the

Notes to Financial Statements (unaudited) (continued)

April 30, 2012

Fund. During the six months ended April 30, 2012, 1,454 shares were purchased pursuant to the Directors compensation plan. Directors as a group own less than 1% of the Fund s outstanding shares.

4. Investment Transactions

For the six months ended April 30, 2012, purchases and sales of securities, other than short-term investments, were $7,060,774 and $5,430,287, respectively.

5. Capital

The authorized capital stock of the Fund is 100,000,000 shares of common stock, $0.001 par value. As of April 30, 2012 there were 8,246,665 common shares issued and outstanding.

6. Credit Facility

The Fund is a party to a joint credit facility along with certain other Funds. The current facility matures on November 9, 2012. The Funds agreed to a $10 million committed revolving joint credit facility with BBH & Co. for temporary or emergency purposes. Under the terms of the joint credit facility, the Funds pay an aggregate commitment fee on the average unused amount of the credit facility. In addition, the Funds pay interest on borrowings at the Overnight LIBOR rate plus a spread. For the six months ended April 30, 2012, the Fund had no borrowings under the joint credit facility.

7. Restricted Securities

Certain of the Fund s investments are restricted as to resale and are valued at fair value as determined in good faith by, or under the direction of, the Board under procedures established by the Board in the absence of readily ascertainable market values.

Security	Acquisition Date(s)		Cost	Fair Value At 04/30/12	Percent of Net Assets	Distributions Received	Open Commitments
BPA Israel Ventures, LLC	10/05/00	12/09/05	$1,160,483	$453,800	0.25	$97,293	$625,413
Concord Fund I Liquidating Main Trust	12/08/97	09/29/00	1,258,080	85,440	0.05	1,323,268	
Concord Ventures Fund II, L.P.	03/29/00	12/15/06	2,370,237	140,156	0.08	931,294	
Emerging Markets Ventures I, L.P.	01/22/98	01/10/06	2,719,587	489,151	0.27	7,307,818	851,171
Giza GE Venture Fund III, L.P.	01/31/00	11/23/06	1,812,299	488,482	0.27	724,175	
JP Morgan Latin America Capital Partners, L.P.	04/10/00	03/20/08	666,719	145,884	0.08	2,290,424	502,325
Neurone Ventures II, L.P.	11/24/00	12/21/10	205,067	147,970	0.08	401,833	18,750
SVE Star Ventures Enterprises GmbH & Co. No. IX KG	12/21/00	08/12/08	1,588,456	443,346	0.24	460,338	
Technology Crossover Ventures IV, L.P.	03/08/00	09/27/10	438,625	129,511	0.07	2,877,927	48,000
Telesoft Partners II QP, L.P.	07/14/00	03/01/10	1,285,581	804,408	0.44	1,109,561	
TVG Asian Communications Fund II, L.P.	06/07/00	10/27/05	711,954	89,311	0.05	3,689,401	377,882
Walden-Israel Ventures III, L.P.	02/23/01	10/20/10	845,948	372,598	0.21	1,141,882	
Total			$15,063,036	$3,790,057	2.09	$22,355,214	$2,423,541

The Fund may incur certain costs in connection with the disposition of the above securities.

Notes to Financial Statements (unaudited) (continued)

April 30, 2012

8. Share Repurchase Program

Effective November 1, 2009, the Board authorized management to make open market purchases from time to time in an amount up to 10% of the Fund s outstanding shares whenever the Fund s shares are trading at a discount to net asset value of 12% or more. Open market purchases may also be made within the discretion of management if the discount is less than 12%. The Board has instructed management to report repurchase activity to it regularly, and to post the number of shares repurchased on the Fund s website on a monthly basis. For the six months ended April 30, 2012, the Fund did not repurchase any shares through this program.

9. Portfolio Investment Risks

(a) Risks Associated with Foreign Securities and Currencies:

Investments in securities of foreign issuers carry certain risks not ordinarily associated with investments in securities of U.S. issuers. Such risks include, among others, currency risks, information risk and political risk. Currency risk results from securities denominated in currencies other than U.S. Dollars that are subject to changes in value due to fluctuations in exchange rates. Information risk arises with respect to foreign securities when key information about foreign issuers may be inaccurate or unavailable. Political risk includes future political and economic developments, and the possible imposition of exchange controls or other foreign governmental laws and restrictions. In addition, with respect to certain countries, there is the possibility of expropriation of assets, confiscatory taxation, political or social instability or diplomatic developments, which could adversely affect investments in those countries. Other risks of investing in foreign securities include liquidity and valuation risks.

Certain countries also may impose substantial restrictions on investments in their capital markets by foreign entities, including restrictions on investments in issuers of industries deemed sensitive to relevant national interests. These factors may limit the investment opportunities available and result in a lack of liquidity and high price volatility with respect to securities of issuers from developing countries.

Some countries require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, if there is deterioration in a country s balance of payments or for other reasons, a country may impose temporary restrictions on foreign capital remittances abroad. Amounts repatriated prior to the end of specified periods may be subject to taxes as imposed by a foreign country.

(b) Risks Associated with Emerging Markets:

The emerging countries securities markets are substantially smaller, less liquid and more volatile than the major securities markets in the United States. A high proportion of the securities of many companies in emerging countries may be held by a limited number of persons, which may limit the number of securities available for investment by the Fund. The limited liquidity of emerging country securities markets may also affect the Fund s ability to acquire or dispose of securities at the price and time it wishes to do so.

(c) Risks Associated with Restricted Securities:

The Fund, subject to local investment limitations, may invest up to 25% of its assets (at the time of commitment) in illiquid equity securities, including securities of private equity funds (whether in corporate or partnership form) that invest primarily in the emerging markets. When investing through another investment fund, the Fund will bear its proportionate share of the expenses incurred by that underlying fund, including management fees. Such securities are expected to be illiquid which may involve a high degree of business and financial risk and may result in substantial losses. Because of the current absence of any liquid trading market for these investments, the Fund may take longer to liquidate these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized on such sales could be substantially less than those originally paid by the Fund or the current carrying values and these differences could be material. Further, companies whose securities are not publicly traded may not be subject to the disclosures and other investor protection requirements applicable to companies whose securities are publicly traded.

(d) Risks Associated with Focus in a Particular Industry:

The Fund focuses its investments in the equity and debt securities of emerging markets telecommunications companies and infrastructure companies. As a result, the financial, economic, business and political developments in these particular sectors of the market, positive or negative, have a greater impact on the Fund s net asset value and will cause its shares to fluctuate more than if the Fund did not focus its investments in these particular sectors.

(e) Risks Associated with European Markets:

A number of countries in Europe have experienced severe economic and financial difficulties. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts; many other issuers have faced difficulties obtaining credit or refinancing existing obligations; financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit;

Notes to Financial Statements (unaudited) (concluded)

April 30, 2012

and financial markets in Europe and elsewhere have experienced extreme volatility and declines in asset values and liquidity. These difficulties may continue, worsen or spread within and without Europe. Whether or not a Fund invests in securities of issuers located in Europe or with significant exposure to European issuers or countries, these events could negatively affect the value and liquidity of the Fund s investments.

10. Contingencies

In the normal course of business, the Fund may provide general indemnifications pursuant to certain contracts and organizational documents. The Fund s maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

11. Tax Information

At April 30, 2012, the identified cost for federal income tax purposes, the gross unrealized appreciation from investments for those securities having an excess of value over cost, the gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were $154,642,743, $47,502,664, $(20,696,626) and $26,806,038, respectively.

12. Recent Accounting Pronouncements

In May 2011, FASB issued ASU No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU No. 2011-04 establishes common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011. Management is currently evaluating the impact ASU No. 2011-04 may have on financial statement disclosures.

13. Subsequent Events

Management has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the financials statements were issued. Based on this evaluation, no adjustments were required to the financial statements as of April 30, 2012.

Results of Annual General Meeting of Shareholders (unaudited)

The Annual Meeting of Shareholders of the Fund was held on March 22, 2012 at 1735 Market Street, Philadelphia, Pennsylvania. The description of the proposals and number of shares voted at the meeting are as follows:

(1) To re-elect certain directors to the Board of Directors of the Fund:

	Votes For	Votes Withheld
Steven N. Rappaport	7,105,533	310,535
Alexander E. Zagoreos	7,192,982	223,086

Directors whose term of office continued beyond this meeting are as follows: Enrique R. Arzac, James J. Cattano, Gregory Hazlett, and Martin M. Torino.

Supplemental Information (unaudited)

As described in Note 3.(a), above, AAML now serves as the Fund s investment adviser. AAMISL, the previous investment adviser, merged into AAML on March 1, 2012. Information regarding the Fund Board s most recent approval of the renewal of the investment advisory agreement with AAMISL, which occurred in December 2011, follows. In September 2011, prior to the six-month period covered by this report, the Fund Board had approved the transition of advisory responsibilities from AAMISL to AAML. In light of this prior approval, and in light of the absence of any change to the portfolio management team or the nature and level of the services provided to the Fund as a result of the merger, and the fact that the same resources available to AAMISL for the management and compliance oversight of the Fund are available to AAML, the approval of the renewal described below was done in the context of the upcoming merger, and the findings with respect to AAMISL apply equally to AAML.

Board Approval of Investment Advisory Agreement

The Investment Company Act of 1940 (the Investment Company Act) and the terms of the investment advisory agreement (the Advisory Agreement) between the Aberdeen Emerging Markets Telecommunication and Infrastructure Fund, Inc. (the Fund) and Aberdeen Asset Management Investment Services Limited (the Adviser) require that, following its initial two-year approval period, the Advisory Agreement be approved annually at an in-person meeting by the Board of Directors (the Board), including a majority of the Directors who have no direct or indirect interest in the investment advisory agreement and are not interested persons of the Fund, as defined in the Investment Company Act (the Independent Directors).

At its meeting on December 6, 2011, the Board voted unanimously to renew the Advisory Agreement between the Fund and the Adviser. In connection with its evaluation of the Advisory Agreement, the Board reviewed a broad range of information requested for this purpose and considered a variety of factors, including the following:

(i) The nature, extent and quality of the services provided by the Adviser;

(ii) The performance of the Fund;

(iii) The management fee rate and the total net expense ratio of the Fund, both on an absolute basis and as compared both to a relevant peer group of funds and to fees charged by the Adviser to others;

(iv) The extent to which economies of scale could be realized by the Adviser and shared with the shareholders;

(v) The costs of services provided and profits realized by the Adviser;

(vi) Other benefits realized by the Adviser from its relationship with the Fund; and

(vii) Any other factors that the Board deemed relevant to its consideration.

In addition to its review of information presented to the Board during the contract renewal process, the Board considered knowledge gained from discussions with management at regular and special meetings throughout the year. The Independent

Directors were represented by independent counsel throughout the review process and convened executive sessions without management present. In its deliberations, the Board did not identify any single factor that was all-important or

Supplemental Information (unaudited) (unaudited)

controlling and each Director may have attributed different weights to the various factors.

Certain of the Board considerations outlined above are discussed in more detail below.

Nature, Extent and Quality of Services. The Board received and considered various data and information regarding the nature, extent and quality of services provided under the Advisory Agreement. The Board considered, among other things, information about the background and experience of senior management and investment personnel who were responsible for managing the Fund. The Board also received presentations from and participated in information sessions with senior investment personnel of the Adviser. The Board considered information provided regarding the portfolio managers and other resources dedicated to the Fund and the investment philosophy and process followed by those individuals responsible for managing the Fund. The Board, in particular, received information from the Adviser about its resources, including personnel, devoted to focusing on the geographic area in which the Fund invests. The Board was satisfied that the Adviser had appropriate resources to cover the geographic area to manage the Fund in a manner consistent with its investment objective.

The Board also evaluated the ability of the Adviser, based on its resources, reputation and other attributes, to attract and retain qualified investment professionals. In this regard, the Board considered information regarding the general nature of the compensation structure applicable to portfolio managers and other key personnel.

In addition, the Board considered and evaluated materials and information received regarding the Adviser s investment and legal compliance program and record with respect to the U.S. registered closed-end funds managed by the Adviser. The Board met in-person with and received quarterly reports from the Fund s Chief Compliance Officer.

Furthermore, the Board received and considered information about the financial viability of the Adviser to satisfy itself that the Adviser had adequate resources to perform the services required under the Advisory Agreement.

Based on the foregoing and other relevant information reviewed, the Board concluded that, overall, the nature, extent and quality of the services provided to the Fund supported renewal of the Advisory Agreement.

Investment Performance. In addition to reports received at its regular quarterly meetings, the Board received and considered information on the investment performance history of the Fund, including comparison to a comparable fund in a Morningstar Category average and

benchmark index returns over various time periods. The Board was provided with reports, independently prepared by Strategic Insight Mutual Fund Research and Consulting, LLC (Strategic Insight), which included a comprehensive analysis of the Fund s performance.

The Fund s performance was in-line with the performance of its benchmark index, the MSCI Emerging Markets Telecom Index, for the periods under review. Since 2009, the Fund underperformed the other closed-end fund in the Morningstar Specialty Communications Category, which invests using a strategy that differs from the Fund in important respects. The Adviser provided information about factors that contributed to the Fund s performance results since 2009 when it assumed responsibility for managing the Fund. The Board concluded that it was generally satisfied with the Fund s performance and that the Adviser was taking appropriate actions with respect to investment performance.

Fees and Economies of Scale. The Board considered the management fee rate charged by the Adviser to the Fund. The Board received an analysis from Strategic Insight that compared the Fund s management fee rate to the management fee rate of a peer group of funds on a gross basis and on a net basis after taking into consideration any waivers or reimbursements. The Board noted that the gross management fee rate for the Fund was in-line with the average and median gross management fee rates for its peer group. The Board also noted that the net management fee rate for the Fund was in-line with the average and median net management fee rates of its peer group. Furthermore, the Board concluded that the contractual breakpoints utilized by the Fund adequately took into account potential economies of scale.

The Board also reviewed information prepared by Strategic Insight that showed that the Fund s 2010 total net expense ratio was in-line with the average but higher than the median ratio of its peer group. The Board considered the differences between the Fund and the funds in the peer group. The Board noted that the peer group funds invest primarily in domestic securities, whereas the Fund invests primarily in non-US securities of companies in foreign emerging markets, resulting in a custody expense that was significantly higher than that of the peer group funds. The Board concluded that the Fund s expense results were primarily attributable to the higher cost of custody of foreign assets.

Costs of Services Provided and Profitability. The Board considered, among other things, the Adviser s estimates of its costs in providing advisory services to the Fund, and the Adviser s resulting profitability. Based on its review of the cost and profit information provided by the Adviser, in light of the nature, extent and quality of services provided to the Fund, the Board did not deem the Adviser s profitability to be excessive.

Supplemental Information (unaudited) (concluded)

Information about Services to Other Clients. The Board considered information about the nature and extent of services and fee rates offered by the Adviser to other clients, including other registered investment companies and unregistered or institutional accounts. The Adviser advised the Board that, due to the unique strategy of the Fund, the Adviser did not manage any other closed-end funds that were directly comparable. The Board considered that the Adviser was subject to a broader and more extensive regulatory regime in connection with management of the Fund compared to the Adviser s management of unregistered or institutional accounts. The Board did not deem the fee rate under the Advisory Agreement to be excessive relative to these other fee rates, given its understanding of similarities and differences in the nature and extent of services offered and other factors.

Fall-Out Benefits and Other Factors. The Board also considered information regarding potential fall-out or ancillary benefits that could be realized by the Adviser as a result of its relationship with the Fund. In this regard, the Board was advised that the Adviser and its affiliates may derive reputational benefits from their association with the Fund. The Board also noted, however, that such benefits were difficult to quantify with certainty.

Additionally, the Board considered that the Adviser has the authority to receive research and other services from a broker that may be useful to various clients in exchange for conducting portfolio brokerage transactions through such broker. The Board noted that the Adviser also may enter into commission sharing arrangements with certain brokers for the receipt of goods or services that relate to the execution of trades or the provision of research. The Board considered the Adviser s representations that it evaluates any soft-dollar or commission sharing arrangements for compliance with applicable US or UK regulations, particularly with respect to the safe harbor contained in Section 28(e) of the Securities Exchange Act of 1934, and for compliance with its best execution obligations.

* * * * *

After an evaluation of the above-described factors and based on its deliberations and analysis of the information provided and alternatives considered, the Board, including all of the Independent Directors, unanimously approved the Advisory Agreement and the compensation payable thereunder.

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Corporate Information

Directors
Enrique R. Arzac, *Chairman*
James J. Cattano
Gregory A. Hazlett
Steven N. Rappaport
Martin M. Torino
Alexander E. Zagoreos

Officers
Christian Pittard, *President*
Jeffrey Cotton, *Vice President and Chief Compliance Officer*
Andrea Melia, *Treasurer and Chief Financial Officer*
Megan Kennedy, *Vice President and Secretary*
Alan Goodson, *Vice President*
Joanne Irvine, *Vice President*
Devan Kaloo, *Vice President*
Jennifer Nichols, *Vice President*
Nick Robinson, *Vice President*
Lucia Sitar, *Vice President*
Hugh Young, *Vice President*
Sharon Ferrari, *Assistant Treasurer*
Heather Hasson, *Assistant Secretary*

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Bow Bells House
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EC4M 9HH

Administrator & Custodian
Brown Brothers Harriman & Co.
40 Water Street
Boston, MA 02109

Shareholder Servicing Agent
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Providence, RI 02940

Independent Registered Public Accounting Firm
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125 High Street
Boston, MA 02110

Legal Counsel
Willkie Farr & Gallagher LLP
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New York, NY 10019

Independent Director Legal Counsel
Goodwin Procter LLP
901 New York Avenue
Washington, DC 20001

Investor Relations
Aberdeen Asset Management Inc.
1735 Market Street, 32nd Floor
Philadelphia, PA 19103
1-866-839-5205
InvestorRelations@aberdeen-asset.com

Aberdeen Asset Managers Limited

The accompanying Financial Statements as of April 30, 2012, were not audited and accordingly, no opinion is expressed thereon.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may purchase, from time to time, shares of its common stock in the open market.

Shares of Aberdeen Emerging Markets Telecommunications and Infrastructure Fund, Inc. are traded on the NYSE Amex Exchange under the symbol ETF . Information about the Fund s net asset value and market price is available at www.aberdeenetf.com.

This report, including the financial information herein, is transmitted to the shareholders of Aberdeen Emerging Markets Telecommunications and Infrastructure Fund, Inc. for their general information only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person. Past performance is no guarantee of future returns.

Item 2. Code of Ethics.

This item is inapplicable to semi-annual report on Form N-CSR.

Item 3. Audit Committee Financial Expert.

This item is inapplicable to semi-annual report on Form N-CSR.

Item 4. Principal Accountant Fees and Services.

This item is inapplicable to semi-annual report on Form N-CSR.

Item 5. Audit Committee of Listed Registrants.

This item is inapplicable to semi-annual report on Form N-CSR.

Item 6. Schedule of Investments.

(a) Included as part of the Report to Shareholders filed under Item 1 of this Form N-CSR.

(b) Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

This item is inapplicable to semi-annual report on Form N-CSR.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a) This item is inapplicable to semi-annual report on Form N-CSR.

(b) During the period ended April 30, 2012, there were no changes in any of the Portfolio Managers identified in the Registrant s Annual Report on Form N-CSR filed on January 6, 2012.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs1	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs1
November 1, 2011 through November 30, 2011	0	0	0	824,667
December 1, 2011 through December 31, 2011	0	0	0	824,667
January 1, 2012 through January 31, 2012	0	0	0	824,667
February 1, 2012 through February 28, 2012	0	0	0	824,667

March 1, 2012 through March 31, 2012	0	0	0	824,667
April 1, 2012 through April 30, 2012	0	0	0	824,667
Total	0	0	0	824,667

1 The plan was announced December 4, 2003. On October 26, 2009 the Fund announced that the share repurchase program was to be reinitiated. The reinitiated program authorizes management to make open market purchases from time to time in an amount up to 10% of the Fund s outstanding shares. Such purchases may be made when the Fund s shares are trading at a discount to net asset value of 12% or more. Open market purchases may also be made at the discretion of management if the discount to net asset value is less than 12%. The authority under the program will be effective beginning November 1, 2009. The plan does not have an expiration date.

Item 10. Submission of Matters to a Vote of Security Holders.

During the period ended April 30, 2012, there were no material changes to the procedures by which shareholders may recommend nominees to the Registrant s Board of Directors.

Item 11. Controls and Procedures.

(a) The Registrant s principal executive and principal financial officers, or persons performing similar functions, have concluded that the Registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act) (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act) (17 CFR 240.13a-15(b) or 240.15d-15(b)).

(b) There have been no changes in the Registrant s internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant s internal control over financial reporting.

Item 12. Exhibits.

(a)(1) Not applicable.

(a)(2) The certifications of the registrant as required by Rule 30a-2(a) under the Act are exhibits to this report.

(a)(3) Not applicable.

(b) The certifications of the registrant as required by Rule 30a-2(b) under the Act are an exhibit to this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Aberdeen Emerging Markets Telecommunications and Infrastructure Fund, Inc.

By: /s/ Christian Pittard

Christian Pittard,

President of Aberdeen Emerging Markets Telecommunications and Infrastructure Fund, Inc.

Date: June 29, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Christian Pittard

Christian Pittard,

President of Aberdeen Emerging Markets Telecommunications and Infrastructure Fund, Inc.

Date: June 29, 2012

By: /s/ Andrea Melia

Andrea Melia,

Treasurer and Chief Financial Officer of Aberdeen Emerging Markets Telecommunications and Infrastructure Fund, Inc.

Date: June 29, 2012